

**M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S O F  
F I N A C I A L C O N D I T I O N A N D R E S U L T S O F O P E R A T I O N S**

**C O N S O L I D A T E D R E S U L T S**

**A s - R e p o r t e d R e s u l t s o f O p e r a t i o n s**  
(in millions, except per share data)

	2002	2001	2000
Revenues	\$ 25,329	\$ 25,172	\$ 25,325
Costs and expenses	(22,924)	(21,573)	(21,567)
Amortization of intangible assets	(21)	(767)	(1,233)
Gain on sale of businesses	34	22	489
Net interest expense and other	(453)	(417)	(497)
Equity in the income of investees	225	300	208
Restructuring and impairment charges	—	(1,454)	(92)
Income before income taxes, minority interests and the cumulative effect of accounting changes	<b>2,190</b>	1,283	2,633
Income taxes	(853)	(1,059)	(1,606)
Minority interests	(101)	(104)	(107)
Income before the cumulative effect of accounting changes	<b>1,236</b>	120	920
Cumulative effect of accounting changes:			
Film accounting	—	(228)	—
Derivative accounting	—	(50)	—
Net income (loss)	<b>\$ 1,236</b>	\$ (158)	\$ 920
Earnings (loss) attributed to Disney Common Stock <sup>(1)</sup>	<b>\$ 1,236</b>	\$ (41)	\$ 1,196
Earnings per share before the cumulative effect of accounting changes attributed to Disney Common Stock: <sup>(1)</sup>			
Diluted	<b>\$ 0.60</b>	\$ 0.11	\$ 0.57
Basic	<b>\$ 0.61</b>	\$ 0.11	\$ 0.58
Cumulative effect of accounting changes per Disney share:			
Film accounting	\$ —	\$ (0.11)	\$ —
Derivative accounting	—	(0.02)	—
\$ —	\$ (0.13)	\$ —	—
Earnings (loss) per share attributed to Disney Common Stock: <sup>(1)</sup>			
Diluted	<b>\$ 0.60</b>	\$ (0.02)	\$ 0.57
Basic	<b>\$ 0.61</b>	\$ (0.02)	\$ 0.58
Earnings attributed to Disney common stock before the cumulative effect of accounting changes adjusted for the impact of SFAS 142 in fiscal 2001 and 2000 <sup>(1)</sup>	<b>\$ 1,236</b>	\$ 891	\$ 2,157
Earnings per share attributed to Disney common stock before the cumulative effect of accounting changes adjusted for the impact of SFAS 142 in fiscal 2001 and 2000: <sup>(1)</sup>			
Diluted	<b>\$ 0.60</b>	\$ 0.42	\$ 1.03
Basic	<b>\$ 0.61</b>	\$ 0.43	\$ 1.04
Average number of common and common equivalent shares outstanding for the Disney Common Stock:			
Diluted	<b>2,044</b>	2,100	2,103
Basic	<b>2,040</b>	2,085	2,074
Loss attributed to Internet Group Common Stock	n/a	\$ (117)	\$ (276)
Loss per share attributed to Internet Group Common Stock (basic and diluted)	n/a	\$ (2.72)	\$ (6.18)
Average number of common and common equivalent shares outstanding for the Internet Group Common Stock	n/a	43	45

<sup>(1)</sup>Including Disney's retained interest in the Internet Group. Disney's retained interest in the Internet Group reflects 100% of Internet Group losses through November 17, 1999, approximately 72% for the period from November 18, 1999 through January 28, 2001 (the last date prior to the announcement of the conversion of the Internet Group common stock) and 100% thereafter.

#### **CONSOLIDATED RESULTS**

**2002 vs. 2001** Net income for the year was \$1.2 billion, compared to a net loss of \$158 million in the prior-year period. Net income and earnings per share attributed to Disney common stock were \$1.2 billion and \$0.60, respectively, for the current year, compared to a net loss and loss per share of \$41 million and \$0.02 in the prior year. Results for the current year include a pre-tax gain (\$216 million or \$0.07 per share) on the sale of the remaining shares of Knight-Ridder, Inc., a pre-tax gain on the sale of the Disney Store business in Japan (\$34 million or \$0.01 per share), operations of ABC Family acquired on October 24, 2001, incremental interest expense for borrowings related to that acquisition and the cessation of amortization of goodwill and certain intangible assets, due to the adoption of Statement of Financial Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142) effective October 1, 2001. The prior year included restructuring and impairment charges (\$1.5 billion or \$0.52 per share) and the cumulative effect of accounting changes (\$278 million or \$0.13 per share). Earnings and earnings per share attributed to Disney common stock before the cumulative effect of accounting changes adjusted for the impact of SFAS 142 for the prior-year were \$891 million and \$0.42, respectively.

Excluding the year-over-year impact of the non-recurring items discussed above, results for the year were driven by lower segment operating income and equity in income of investees and higher net interest expense and other. Decreased segment operating income reflected lower Media Networks and Parks and Resorts results, partially offset by higher Studio Entertainment results. Lower equity in the income of investees reflected the write-down of an investment in a Latin American cable operator, decreases at the cable investments resulting from the soft advertising market and higher advertising costs at Lifetime Television.

Net interest expense and other is detailed below:

	Year Ended September 30,		
	2002	2001	2000
Interest expense	\$ (723)	\$ (544)	\$ (599)
Interest income	23	26	22
Investment income	247	101	80
Net interest expense and other	<b><u><math>(453)</math></u></b>	<b><u><math>(417)</math></u></b>	<b><u><math>(497)</math></u></b>

Interest expense increased to \$723 million due to incremental borrowings in connection with the ABC Family acquisition. Higher interest expense was partially offset by increased investment income due to the gain on the sale of Knight-Ridder shares.

The effective tax rate decreased from 82.5% in fiscal 2001 to 38.9% in fiscal 2002 due to nondeductible impairment charges related to intangible assets taken in fiscal 2001, and the cessation of nondeductible amortization of goodwill in fiscal 2002.

**2001 vs. 2000** As-reported net loss was \$158 million compared to net income of \$920 million in fiscal 2000. Net loss and loss per share attributed to Disney common stock were \$41 million and \$0.02, respectively, compared to net income and earnings per share attributed to Disney common stock of \$1.2 billion and \$0.57, respectively, in the prior year. As-reported net loss in fiscal 2001 includes charges

from the cumulative effect of accounting changes (\$278 million or \$0.13 per Disney share) and restructuring and impairment charges (\$1.5 billion or \$0.52 per Disney share). As-reported results also include pre-tax gains on the sale of Infoseek Japan K.K. (\$22 million) in fiscal 2001, and Fairchild Publications (\$243 million), Ultraseek Corporation (\$153 million) and Eurosport (\$93 million) in fiscal 2000.

Excluding the charges and gains mentioned above, earnings per share attributed to Disney common stock was \$0.63 and \$0.56 for fiscal 2001 and 2000, respectively. Results for fiscal 2001 also reflected lower amortization of intangible assets and net interest expense and other, and higher equity in the income of investees, partially offset by decreased segment operating income and higher corporate and unallocated shared expenses. Lower amortization of intangible assets reflected the write-off of intangible assets associated with the closure of the GO.com portal business in the second quarter of fiscal 2001, certain intangible assets becoming fully amortized in the first quarter of fiscal 2001 and a reduction in intangible assets related to the sale of Fairchild Publications, Ultraseek and Eurosport in fiscal 2000. Decreases in net interest expense and other were due to lower interest rates and lower average debt balances throughout most of fiscal 2001, partially offset by increased investment income due to gains on the sale of certain investments. Higher equity in the income of investees reflected improved results from cable equity investments including Lifetime Television, The History Channel and A&E Television and certain international cable equity investments, partially offset by start-up losses incurred in connection with new investments. Decreased segment operating income reflected lower Media Networks and Parks and Resorts results, partially offset by improvements at Studio Entertainment and Consumer Products. Increased corporate and unallocated shared expenses were driven by costs associated with several strategic initiatives designed to improve overall company-wide efficiency and promote the Disney brand.

The effective tax rate increased from 61.0% in fiscal 2000 to 82.5% in fiscal 2001 primarily due to nondeductible impairment charges related to intangible assets taken in fiscal 2001.

#### **RESTRUCTURING AND IMPAIRMENT CHARGES**

The Company recorded restructuring and impairment charges for the years ended September 30, 2001 and 2000 summarized as follows:

(in millions)	2001	2000
GO.com intangible assets impairment	\$ 820	\$—
GO.com severance, fixed asset write-offs and other	58	—
Investment impairments	254	61
Workforce reduction and other	111	—
Chicago DisneyQuest closure	94	—
Asset impairment	63	31
Disney Store closures	54	—
Total restructuring and impairment charges	<b><u>\$1,454</u></b>	<b><u>\$92</u></b>

The \$111 million of costs associated with the workforce reduction consist primarily of severance costs and write-offs of idled facilities. As of September 30, 2002, the Company had substantially completed its workforce reduction.

#### **PRO FORMA RESULTS OF OPERATION**

The Company acquired Fox Family Worldwide, Inc., subsequently re-named ABC Family Worldwide (ABC Family) on October 24, 2001. The acquisition resulted in a \$5.2 billion increase in borrowings, consisting of outstanding debt of ABC Family and new short-and long-term debt issuances. Pro forma net interest and other has been adjusted as if these incremental borrowings had been outstanding as of the beginning of fiscal 2001. In March 2001, the Company closed the GO.com portal business and converted its Internet Group common stock into Disney common stock. Additionally, on October 1, 2001, the Company adopted SFAS 142, and accordingly no longer amortizes substantially all of its intangible assets. To enhance comparability, the unaudited pro forma information that follows presents consolidated results of operations as if the ABC Family acquisition, the conversion of the Internet Group common stock, the closure of the GO.com portal business and the adoption of SFAS 142 (see Notes 3 and 6 to the Consolidated Financial Statements) had occurred at the beginning of fiscal 2001. The unaudited pro forma information is not necessarily reflective of the results of operations had these events actually occurred at the beginning of fiscal 2001, nor is it necessarily indicative of future results.

Management believes that pro forma operating results provide additional information useful in analyzing the underlying business results. However, pro forma operating results should be considered in addition to, not as a substitute for, as-reported results of operations.

#### **CONSOLIDATED RESULTS**

##### **Pro Forma Results of Operations**

(unaudited; in millions, except per share data)

	2002	2001	% Change
Revenues	\$ 25,360	\$ 25,790	(2%)
Costs and expenses	(22,951)	(21,982)	(4%)
Amortization of intangible assets	(21)	(23)	9%
Gain on sale of business <sup>(1)</sup>	34	22	55%
Net interest expense and other	(465)	(637)	27%
Equity in the income of investees	225	310	(27%)
Restructuring and impairment charges	—	(576)	n/m
Income before income taxes, minority interests and the cumulative effect of accounting changes	2,182	2,904	(25%)
Income taxes	(850)	(1,128)	25%
Minority interests	(101)	(103)	2%
Income before the cumulative effect of accounting changes	<u>1,231</u>	1,673	(26%)
Cumulative effect of accounting changes:			
Film accounting	—	(280)	n/m
Derivative accounting	—	(50)	n/m
Net income	<u>\$ 1,231</u>	<u>\$ 1,343</u>	(8%)
Earnings per share before the cumulative effect of accounting changes (basic and diluted): <sup>(2)</sup>	<u>\$ 0.60</u>	<u>\$ 0.80</u>	(25%)
Earnings before the cumulative effect of accounting changes, excluding investment gain in fiscal 2002, restructuring and impairment charges and gain on the sale of businesses	<u>\$ 1,074</u>	<u>\$ 2,041</u>	(47%)
Earnings per share before the cumulative effect of accounting changes, excluding investment gain in fiscal 2002, restructuring and impairment charges and gain on the sale of businesses:			
Diluted	<u>\$ 0.53</u>	<u>\$ 0.97</u>	(45%)
Basic	<u>\$ 0.53</u>	<u>\$ 0.98</u>	(46%)
Average number of common and common equivalent shares outstanding:			
Diluted	<u>2,044</u>	<u>2,104</u>	
Basic	<u>2,040</u>	<u>2,089</u>	

<sup>(1)</sup>Includes the gain on sale of the Company's Disney Store operations in Japan in 2002 and the gain on sale of Infoseek Japan K.K. in 2001.

<sup>(2)</sup>The per share impacts of film and derivative accounting changes for the year were \$(0.13) and \$(0.02), respectively.

The following table provides a reconciliation of as-reported diluted earnings per share attributed to Disney common stock to pro forma earnings per share before the cumulative effect of accounting changes, excluding investment gain in fiscal 2002 and restructuring and impairment charges and gains on sale of business.

	Year Ended September 30,	
(unaudited)	<b>2002</b>	2001
As-reported diluted earnings (loss) per share attributed to Disney common stock	<b>\$ 0.60</b>	\$(0.02)
Adjustment to exclude the cumulative effect of accounting changes	—	0.13
Adjustment to reflect the impact of the new SFAS 142 accounting rules	—	0.31
As-reported diluted earnings per share attributed to Disney common stock before the cumulative effect of accounting changes adjusted for the impact of SFAS 142 in fiscal 2001	<b>0.60</b>	0.42
Adjustment to attribute 100% of Internet Group operating results to Disney common stock (72% included in as-reported amounts)	—	(0.06)
Adjustment to exclude GO.com restructuring and impairment charges	—	0.41
Adjustment to exclude pre-closure GO.com portal operating results	—	0.04
Adjustment to include ABC Family operations	—	(0.01)
Pro forma diluted earnings per share before the cumulative effect of accounting changes	<b>0.60</b>	0.80
Adjustment to exclude restructuring and impairment charges	—	0.17
Adjustment to exclude gain on sale of business	<b>(0.01)</b>	—
Adjustment to exclude fiscal 2002 investment gain	<b>(0.07)</b>	—
Pro forma diluted earnings per share before the cumulative effect of accounting changes, excluding investment gain in fiscal 2002 and restructuring and impairment charges and gain on sale of business	<b>\$ 0.53</b>	\$ 0.97

The impact of gain on sale of business on fiscal 2001 and the 2002 pro forma impact of ABC Family each had less than \$0.01 impact.

Earnings per share amounts for fiscal 2002 do not add due to rounding.

**BUSINESS SEGMENT RESULTS**

(in millions)	As Reported			Pro Forma (unaudited)		% Change
	2002	2001	2000	2002	2001	
<b>Revenues:</b>						
Media Networks	\$ 9,733	\$ 9,569	\$ 9,836	\$ 9,763	\$ 10,157	(4%)
Parks and Resorts	6,465	7,004	6,809	6,465	7,004	(8%)
Studio Entertainment	6,691	6,009	5,918	6,691	6,009	11%
Consumer Products	2,440	2,590	2,762	2,441	2,620	(7%)
	<b>\$25,329</b>	<b>\$25,172</b>	<b>\$25,325</b>	<b>\$25,360</b>	<b>\$25,790</b>	(2%)
<b>Segment operating income:</b>						
Media Networks	\$ 986	\$ 1,758	\$ 1,985	\$ 990	\$ 1,949	(49%)
Parks and Resorts	1,169	1,586	1,615	1,169	1,586	(26%)
Studio Entertainment	273	260	126	273	260	5%
Consumer Products	394	401	386	394	419	(6%)
	<b>\$ 2,822</b>	<b>\$ 4,005</b>	<b>\$ 4,112</b>	<b>\$ 2,826</b>	<b>\$ 4,214</b>	(33%)

The Company evaluates the performance of its operating segments based on segment operating income. The following table reconciles segment operating income to income before income taxes, minority interests and the cumulative effect of accounting changes.

(in millions)	As Reported			Pro Forma (unaudited)	
	2002	2001	2000	2002	2001
<b>Segment operating income</b>					
Segment operating income	\$ 2,822	\$ 4,005	\$ 4,112	\$ 2,826	\$ 4,214
Corporate and unallocated shared expenses	(417)	(406)	(354)	(417)	(406)
Amortization of intangible assets	(21)	(767)	(1,233)	(21)	(23)
Gain on sale of businesses	34	22	489	34	22
Net interest expense and other	(453)	(417)	(497)	(465)	(637)
Equity in the income of investees	225	300	208	225	310
Restructuring and impairment charges	—	(1,454)	(92)	—	(576)
<b>Income before income taxes, minority interests and the cumulative effect of accounting changes</b>					
Income before income taxes, minority interests and the cumulative effect of accounting changes	<b>\$2,190</b>	<b>\$ 1,283</b>	<b>\$ 2,633</b>	<b>\$2,182</b>	<b>\$ 2,904</b>

Segment earnings before interest, income taxes, depreciation and amortization (EBITDA) is as follows:

(in millions)	As Reported			Pro Forma (unaudited)	
	2002	2001	2000	2002	2001
<b>Media Networks</b>					
Media Networks	\$ 1,166	\$ 1,934	\$ 2,154	\$ 1,171	\$ 2,134
Parks and Resorts	1,817	2,190	2,197	1,817	2,190
Studio Entertainment	319	307	180	319	307
Consumer Products	452	491	495	452	509
	<b>\$3,754</b>	<b>\$4,922</b>	<b>\$5,026</b>	<b>\$3,759</b>	<b>\$5,140</b>

Management believes that segment EBITDA provides additional information useful in analyzing the underlying business results. However, segment EBITDA is a non-GAAP financial metric and should be considered in addition to, not as a substitute for, reported segment operating income.

#### Media Networks

The following table provides supplemental revenue and segment operating income detail for the Media Networks segment.

(in millions)	Pro Forma (unaudited)		As Reported 2000
	2002	2001	
<b>Revenues:</b>			
Broadcasting	\$5,064	\$ 5,945	\$6,327
Cable Networks	4,699	4,212	3,509
	<b>\$9,763</b>	<b>\$10,157</b>	<b>\$9,836</b>
<b>Segment Operating Income:</b>			
Broadcasting	\$ (36)	\$ 783	\$ 970
Cable Networks	1,026	1,166	1,015
	<b>\$ 990</b>	<b>\$ 1,949</b>	<b>\$1,985</b>

**2002 vs. 2001** On a pro forma basis, revenues decreased 4%, or \$394 million, to \$9.8 billion, reflecting a decrease of 15%, or \$881 million, at Broadcasting, partially offset by an increase of 12%, or \$487 million, at the Cable Networks. The decrease at Broadcasting was driven by declines at the ABC television network and the Company's owned television stations due to lower ratings and lower advertising rates. Additionally, the prior year included revenues from a non-recurring sale of a film library at ABC Family. Increases at the Cable Networks were driven by higher affiliate revenues reflecting higher rates at ESPN and subscriber growth at both ESPN and the International Disney Channels, partially offset by lower advertising revenues due to the soft advertising market and lower revenues from Adelphia Communications Company (Adelphia) in the United States and KirchMedia & Company (Kirch) in Germany as a result of their financial difficulties.

On a pro forma basis, segment operating income decreased 49%, or \$959 million, to \$1.0 billion, driven by decreases of \$819 million at Broadcasting, primarily due to decreased revenues. Cable operating income decreased 12%, or \$140 million, as revenue gains were more than offset by cost increases. Costs and expenses increased 7%, or \$565 million, driven by higher sports programming costs at ESPN, principally for NFL broadcasts, and increased advertising costs at the Cable Networks, partially offset by lower costs at the Internet Group and proceeds from an insurance settlement.

As-reported revenues increased 2%, or \$164 million, to \$9.7 billion and segment operating income decreased 44% to \$1.0 billion. As-reported amounts include a partial period of ABC Family operations in the current period and losses associated with the GO.com portal (which was closed on January 29, 2001) in the prior-year period.

The Company has various contractual commitments for the purchase of broadcast rights for sports and other programming, including the National Football League (NFL), National Basketball Association (NBA), Major League Baseball (MLB), National Hockey League (NHL) and various college football conference and bowl games. The costs of these contracts have increased significantly in recent years. We have implemented a variety of strategies, including marketing efforts, to reduce the impact of the higher costs. The impact of these

contracts on the Company's results over the remaining term of the contracts is dependent upon a number of factors, including the strength of advertising markets, effectiveness of marketing efforts and the size of viewer audiences.

The costs of these contracts are charged to expense based on the ratio of each period's gross revenues to estimated total gross revenues over the remaining contract period. The Company's contract to broadcast the NFLIs for an eight year term commencing with the 1998 season. The initial five year period is non-cancelable with the remaining three years renewable at the option of the NFL. Programming rights costs for the initial five year period have been charged to expense based upon the ratio of current period's gross revenues to estimated total revenues for this period of time. Estimates of total gross revenues can change significantly and, accordingly, they are reviewed periodically and amortization and carrying amounts are adjusted, if necessary. Such adjustments could have a material effect on results of operations in future periods.

The Company has investments in cable operations that are accounted for as unconsolidated equity investments. The table below presents operating income from cable television activities, which comprise the Cable Networks and the Company's cable equity investments.

(in millions)	Pro Forma (unaudited)		
	2002	2001	% Change
<b>Operating Income:</b>			
Cable Networks	\$1,026	\$1,166	(12%)
Equity Investments:			
A&E Television and			
Lifetime Television	598	698	(14%)
Other	140	191	(27%)
<b>Operating Income from Cable</b>			
Television Activities	1,764	2,055	(14%)
Partner Share of Operating Income	(618)	(712)	13%
Disney Share of Operating Income	<b>\$1,146</b>	<b>\$1,343</b>	<b>(15%)</b>

Note: Operating income from cable television activities presented in this table represents 100% of both the Company's owned cable businesses and its cable equity investees. The Disney share of operating income represents the Company's ownership interest in cable television operating income. Cable Networks are reported in "Segment operating income" in the statements of income. Equity investments are reported in "Equity in the income of investees" in the statements of income.

We believe that operating income from cable television activities provides additional information useful in analyzing the underlying business results. However, operating income from cable television activities is a non-GAAP financial metric and should be considered in addition to, not as a substitute for, segment operating income.

The Company's share of cable television operating income decreased 15%, or \$197 million, to \$1.1 billion. The decrease was driven by lower revenues due to the weak advertising market at both ESPN and the cable equity affiliates, higher sports programming costs at ESPN and higher advertising expense at the cable equity affiliates, partially offset by higher affiliate revenues at ESPN. Additionally, the current period reflects the write-down of an investment in a Latin American cable operator.

**2001 vs. 2000** On an as-reported basis, revenues decreased 3%, or \$267 million, to \$9.6 billion, driven by decreases of \$601 million at Broadcasting, partially offset by increases of \$334 million at the Cable Networks. The decrease at Broadcasting was driven by lower ratings and the soft advertising market at the ABC television network and the Company's owned television stations and radio operations. Additionally, revenue declines at the television network reflected lower sports advertising revenues due to ABC airing the Super Bowl in fiscal 2000. The increase at the Cable Networks was driven by annual contractual rate adjustments at ESPN combined with subscriber growth at ESPN, the Disney Channel domestically and internationally, partially offset by the soft advertising market during fiscal 2001. Subscriber growth at the Disney Channel reflected increasing satellite (DBS) and digital subscribers and the continuing conversion of the Disney Channel from a premium to a basic service.

Segment operating income decreased 11%, or \$227 million, to \$1.8 billion, driven by a decrease of \$275 million at Broadcasting resulting primarily from decreased revenues and higher programming costs, partially offset by an increase of \$48 million at the Cable Networks, driven by revenue growth. Costs and expenses decreased 1%, or \$40 million for fiscal 2001, but increased as a percentage of revenue. The Company experienced higher programming costs at ESPN, the primetime ABC television network and the Company's owned television stations and radio operations and start-up costs at the international Disney Channels, offset by lower sports programming costs at the ABC television network due to higher costs for the Super Bowl and two additional National Football League (NFL) regular season games in fiscal 2000 and lower costs at the Internet Group due to the closure of toystmart.com in fiscal 2000 and cost saving initiatives.

#### Parks and Resorts

**2002 vs. 2001** Revenues decreased 8%, or \$539 million, to \$6.5 billion, driven primarily by decreases of \$496 million at the Walt Disney World Resort, \$40 million at the Disneyland Resort and \$24 million at Disney Cruise Line, partially offset by increased royalties of \$52 million from the Tokyo Disney Resort. At the Walt Disney World Resort, decreased revenues reflected lower attendance, guest spending and hotel occupancy driven by decreases in international and domestic visitation resulting from continued disruption in travel and tourism and softness in the economy. At the Disneyland Resort, decreased revenues were driven primarily by lower guest spending. Lower guest spending at both Walt Disney World and Disneyland was driven by ticket and other promotional programs as well as a higher mix of local guests, who have higher annual pass usage and tend to spend less per visit. The increased royalties at Tokyo Disney Resort were due to the opening of the Tokyo DisneySea theme park and the Tokyo DisneySea Hotel Mira Costa in the fourth quarter of the prior year.

Segment operating income decreased 26%, or \$417 million, to \$1.2 billion, driven by revenue declines at the Walt Disney World Resort and Disneyland Resort, partially offset by decreased costs and expenses and increased royalties from the Tokyo Disney Resort. Costs and expenses, which consist principally of labor, costs of merchandise, food and beverages sold, depreciation, repairs and maintenance, entertainment and marketing and sales expense, decreased 2%,

or \$122 million, driven primarily by volume decreases, reduced marketing expenses and permanent cost reduction initiatives across all segment businesses and the absence of pre-opening costs for Disney's California Adventure. These cost decreases were partially offset by higher employee benefit and insurance costs.

**2001 vs. 2000** Revenues increased 3%, or \$195 million, to \$7.0 billion, driven primarily by growth of \$278 million at the Disneyland Resort, \$44 million from Disney Cruise Line and \$20 million in higher royalties from Tokyo Disneyland, partially offset by a decrease of \$187 million at the Walt Disney World Resort. At the Disneyland Resort, the opening of Disney's California Adventure, Downtown Disney and Disney's Grand Californian Hotel during the second quarter of fiscal 2001 drove increased attendance, higher occupied room nights and increased guest spending. At the Walt Disney World Resort, decreased revenues were driven by decreased attendance and lower occupied room nights reflecting fiscal 2000 success of the Millennium Celebration, partially offset by increased guest spending and increased revenues at Disney Cruise Line reflecting the strength of the 7-day cruise package that was introduced in the fourth quarter of fiscal 2000. Both the Disneyland Resort and Walt Disney World Resort were impacted by park closures on September 11th and from lower attendance and hotel occupancy due to cancellations and reduced travel during the last three weeks of September 2001.

Segment operating income decreased 2%, or \$29 million, to \$1.6 billion, driven by increased costs at the Disneyland Resort, partially offset by revenue growth at Disneyland, continued growth at Disney Cruise Line and ongoing productivity improvements and cost reduction initiatives at Walt Disney World. Costs and expenses increased 4% or \$224 million. Higher costs at the Disneyland Resort were due to the opening of Disney's California Adventure, Downtown Disney and Disney's Grand Californian Hotel.

#### Studio Entertainment

**2002 vs. 2001** Revenues increased 11%, or \$682 million, to \$6.7 billion, driven by growth of \$603 million in worldwide home entertainment and \$76 million in domestic theatrical motion picture distribution, partially offset by a decline of \$95 million in international theatrical motion picture distribution. Improvements in worldwide home entertainment revenues reflected strong DVD and VHS sales driven by successful titles including Disney/Pixar's *Monsters, Inc.*, *Pearl Harbor*, *Snow White and the Seven Dwarfs* and *Cinderella II: Dreams Come True* along with the success of Miyazaki's *Spirited Away* in Japan, which is distributed in certain markets by a Japanese subsidiary of the Company. In domestic theatrical motion picture distribution, revenue increases were driven by the performance of *Monsters, Inc.*, *Signs* and *Lilo & Stitch*. Despite the success of *Monsters, Inc.*, decreased international theatrical motion picture distribution revenues reflected stronger performance of prior-year titles, which included *Pearl Harbor*, *Unbreakable* and *Dinosaur*.

Segment operating income increased 5%, or \$13 million, to \$273 million, due to increases in worldwide home entertainment, partially offset by a decline in worldwide theatrical motion picture distribution. Costs and expenses, which consist primarily of production cost amortization, distribution and selling expenses, product costs and participation costs, increased 12%, or \$669 million, driven by increases

in worldwide home entertainment and worldwide theatrical motion picture distribution. Increased costs in worldwide home entertainment reflected higher marketing, distribution and participation costs due to *Monsters, Inc.* and *Pearl Harbor* on DVD and VHS. Higher costs in worldwide theatrical motion distribution reflected increased marketing and distribution costs and higher participation costs for *Monsters, Inc.* and *Signs* and an aggregate \$98 million impairment write-down for *Treasure Planet*, including a \$74 million reduction in capitalized film production costs recorded after the film was released on November 27, 2002 (see Note 16 to the Consolidated Financial Statements).

**2001 vs. 2000** Revenues increased 2%, or \$91 million to, \$6.0 billion, driven by growth of \$312 million in worldwide home entertainment and \$126 million in stage plays, partially offset by a decline of \$306 million in worldwide theatrical motion picture distribution. Improvements in worldwide home entertainment revenues reflected strong DVD and VHS performance driven by successful animated titles including Disney/Pixar's *Toy Story 2*, *Dinosaur*, *The Emperor's New Groove* and *Lady and the Tramp II* and stronger performing live-action titles including *Spy Kids*, *Scary Movie*, *Gone in 60 Seconds* and *Remember the Titans*. Growth in stage plays reflected performances of *The Lion King* in additional cities and improved performance of *AIDA*. In worldwide theatrical motion picture distribution, the success of *Pearl Harbor*, *Spy Kids* and *Princess Diaries*, faced difficult comparisons to fiscal 2000 titles, which included *Toy Story 2*, *Tarzan*, *Dinosaur*, *Scary Movie* and *The Sixth Sense*.

Segment operating income increased \$134 million, to \$260 million, due to increases in worldwide home entertainment and stage plays. Costs and expenses decreased 1%, or \$43 million, driven by decreases in worldwide theatrical motion picture distribution, partially offset by increases in worldwide home entertainment. In worldwide theatrical motion picture distribution, cost decreases reflected lower distribution expenses and production costs amortization in fiscal 2001 as well as higher participation expenses in fiscal 2000, due to *Toy Story 2* and *The Sixth Sense*. The increased costs in worldwide home entertainment reflected higher distribution expense and production costs amortization driven by an increase in VHS and DVD unit sales and higher participation costs due to the success of *Toy Story 2* in fiscal 2001. Stage plays operating expenses also increased due to more productions in fiscal 2001.

#### **Consumer Products**

**2002 vs. 2001** On a pro forma basis, revenues decreased 7%, or \$179 million, to \$2.4 billion, reflecting declines of \$81 million in merchandise licensing, \$63 million at Disney Interactive and \$57 million at the Disney Store, partially offset by increases of \$22 million in publishing operations. The decline in merchandise licensing reflected lower guarantee payments in the current year and soft merchandise licensing performance domestically and internationally. Lower revenues at Disney Interactive were due to weaker performing personal computer CD-ROM and video game titles. At the Disney Store, higher comparative store sales were more than offset by lower revenues due to the sale of the Disney Store business in Japan during the third quarter of the current year as well as the impact of store closures domestically. Higher publishing revenues were driven by the

successful releases during the current year including *Lucky Man: A Memoir* by Michael J. Fox and *Hope Through Heartsongs*.

On a pro forma basis, segment operating income decreased 6%, or \$25 million, to \$394 million, primarily driven by declines in merchandise licensing and at Disney Interactive, partially offset by increases at the Disney Store and Disney Catalog. Costs and expenses, which consist primarily of labor, product costs, including product development costs, distribution and selling expenses and leasehold expenses, decreased 7% or \$154 million, primarily driven by lower costs at the Disney Store due to the sale of the Japan business, closures of Disney Store locations domestically and lower advertising costs. Decreased costs also reflected lower Disney Interactive sales volumes as well as cost reductions at the Disney Catalog. These decreases were partially offset by volume increases at the continuing Disney Stores and at publishing.

As-reported revenues decreased 6% to \$2.4 billion and segment operating income decreased 2% to \$394 million. As-reported amounts include ABC Family operations commencing on the acquisition date, October 24, 2001.

**2001 vs. 2000** On an as-reported basis, revenues decreased 6%, or \$172 million, to \$2.6 billion, primarily reflecting declines of \$157 million at the Disney Stores, which were driven by lower comparative store sales in North America and the impact of the disposition of Fairchild Publications in the first quarter of fiscal 2000.

Segment operating income increased 4%, or \$15 million, to \$401 million, primarily driven by benefits from cost reduction initiatives, partially offset by declines at the Disney Stores in North America. Costs and expenses decreased 8% or \$187 million, primarily due to lower sales volume at the Disney Stores in North America, decreased catalog circulation and advertising costs and the impact of cost reduction initiatives.

#### **STOCK OPTION ACCOUNTING**

The Company has elected to continue using the intrinsic-value method of accounting for stock-based awards granted to employees until a uniform method of valuing and expensing stock options is promulgated. Accordingly, the Company has not recognized compensation expense for the fair value of its stock-based awards to employees in its Consolidated Statements of Income. Companies electing to remain with the intrinsic-value method accounting in APB 25 must make pro forma disclosures, as if the fair value based method of accounting had been applied.

The following table reflects pro forma net income (loss) and earnings (loss) per share had the Company elected to record an expense for employee stock options pursuant to the provisions of SFAS 123.

	Year Ended September 30,		
(in millions, except for per share data)	2002	2001	2000
<b>Net income (loss) attributed to</b>			
Disney common stock:			
As reported	<b>\$1,236</b>	\$ (41)	\$1,196
Pro forma after option expense	<b>930</b>	(325)	958
Diluted earnings (loss) per share attributed to Disney common stock:			
As reported	<b>0.60</b>	(0.02)	0.57
Pro forma after option expense	<b>0.45</b>	(0.15)	0.46

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

Fully diluted shares outstanding and diluted earnings per share include the effect of in-the-money stock options calculated based on the average share price for the period. The dilution from employee options increases as the Company's share price increases, as shown below:

Disney Share Price	Total In-the-Money Options	Incremental Diluted Shares <sup>(1)</sup>	Percentage of Average Shares Outstanding	Hypothetical FY2002 EPS Impact <sup>(3)</sup>
\$20.40	24 million	— <sup>(2)</sup>		\$0.00
25.00	104 million	8 million	.39%	0.00
30.00	135 million	19 million	.93%	0.00
40.00	207 million	43 million	2.10%	(0.01)
50.00	216 million	61 million	2.98%	(0.01)

<sup>(1)</sup>Represents the incremental impact on fully diluted shares outstanding assuming the average share prices indicated, using the treasury stock method. Under the treasury stock method, the tax effected proceeds that would be received from the exercise of all in-the-money options are assumed to be used to repurchase shares.

<sup>(2)</sup>Fully diluted shares outstanding for the year ended September 30, 2002 total 2,044 million and include the dilutive impact of in-the-money options at the average share price for the period of \$20.40. At the average share price of \$20.40, the dilutive impact of in-the-money options was 4 million shares for the year.

<sup>(3)</sup>Based upon fiscal 2002 earnings of \$1,236 million or \$0.60 per share.

#### L I QUIDITY AND C A PITAL R E S O URC E S

Cash provided by operations decreased 25%, or \$762 million, to \$2.3 billion, reflecting lower pretax income before non-cash charges and increased film and television production spending and an increase in accounts receivable due to the timing of home video releases, partially offset by lower cash tax payments, and the timing of accounts payable and NFL payments.

During the year, the Company invested \$1.1 billion in parks, resorts and other properties. Investments in parks, resorts and other properties by segment are as follows:

	Year Ended September 30,	
(in millions)	2002	2001
Media Networks	\$ 151	\$ 207
Parks and Resorts	636	1,278
Studio Entertainment	37	36
Consumer Products	58	70
Corporate and unallocated shared expenditures	204	204
	<b>\$1,086</b>	<b>\$1,795</b>

Corporate and unallocated shared capital expenditures primarily include hardware and capitalized software costs for new company wide finance and administrative systems.

Lower spending was driven by decreased Parks and Resorts capital expenditures reflecting the completion of Disney's California Adventure which opened in February 2001, and certain other resort properties in Florida.

On October 24, 2001, the Company acquired ABC Family for \$5.2 billion, funded with \$2.9 billion of new long-term borrowings, plus the assumption of \$2.3 billion of borrowings (of which \$1.1 billion was subsequently repaid).

During the year, the Company received proceeds totaling \$601 million from the sale of investments, primarily the remaining shares of Knight-Ridder, Inc. that the Company received in connection with the disposition of certain publishing assets in fiscal 1997. Additionally, the Company received aggregate proceeds of \$200 million from the sale of the Disney Store business in Japan and the sale of certain real estate properties in the U.K. and Florida.

During fiscal 2001, the Company invested \$480 million to acquire the copyright for certain intellectual property, radio station and publishing assets and the rights to a music library. In fiscal 2001, investing activities also included \$137 million of cash proceeds generated primarily from the sale of Infoseek Japan, K.K. Additionally, cash proceeds from the sale of investments resulted primarily from the sale of Knight-Ridder, Inc. shares. During fiscal 2000, investing activities included cash proceeds from the sale of Fairchild Publications and Eurosport. Fiscal 2000 cash proceeds from the sale of investments were driven by the sale of Inktomi shares acquired through the disposition of Ultraseek.

During the year, the Company's borrowing activity was as follows:

(in millions)	Additions	Payments	Total
Commercial paper borrowings			
(net change for the year)	\$ —	\$ (33)	\$ (33)
US medium term notes and other			
USD denominated debt	3,049	(986)	2,063
European medium term notes	989	—	989
Other	—	(76)	(76)
Debt repaid in connection with the ABC Family acquisition	—	(1,051)	(1,051)
	<b>\$4,038</b>	<b>\$(2,146)</b>	<b>\$ 1,892</b>

The borrowings issued have effective interest rates, including the impact of cross-currency and interest rate swaps, ranging from 2.2% to 7.0% and mature in fiscal 2005 through fiscal 2032. See Note 7 to the Consolidated Financial Statements for more detailed information regarding the Company's borrowings.

Commercial paper borrowings outstanding as of September 30, 2002 totaled \$721 million, with maturities of up to one year, supported by \$4.5 billion of bank facilities, half scheduled to expire in 2003, and the other half expiring in 2005. These bank facilities allow for borrowings at LIBOR-based rates plus a spread, depending upon the Company's public debt rating. As of September 30, 2002, the Company had not borrowed against these bank facilities.

The Company has a U.S. shelf registration statement which allows the Company to borrow up to \$7.5 billion of which \$3.4 billion is available at September 30, 2002. The Company also has a Euro medium-term note program, which permits the issuance of up to approximately \$4 billion of additional debt instruments, which has a \$2.4 billion of capacity at September 30, 2002.

During fiscal 2001, the Company acquired approximately 63.9 million shares of Disney common stock and 1.8 million shares of Internet Group common stock for approximately \$1.1 billion and \$10 million, respectively. No shares were repurchased during the current year. As of September 30, 2002, the Company was authorized to purchase up to approximately 330 million shares of company common stock.

The Company declared a dividend (\$0.21 per Disney share) on December 3, 2002 related to fiscal 2002, which will be payable January 9, 2003 to shareholders of record on December 13, 2002. The Company paid a \$434 million dividend (\$0.21 per Disney share) during the first quarter of fiscal 2000 applicable to fiscal 1999, paid a \$438 million dividend (\$0.21 per Disney share) during the first quarter of fiscal 2001 applicable to fiscal 2000 and paid a \$428 million dividend (\$0.21 per Disney share) during the first quarter of the current year applicable to fiscal 2002. See Note 10 to the Consolidated Financial Statements.

The Company has a 39% interest in Euro Disney S.C.A., which operates the Disneyland Resort Paris. As of September 30, 2002, Euro Disney has drawn \$61 million under a \$164 million line of credit with the Company and it is expected that Euro Disney will draw additional amounts under the credit line during fiscal 2003. As of September 30, 2002, Euro Disney had on a US GAAP basis, total assets of \$3.0 billion and total liabilities of \$2.9 billion, including borrowings of \$2.2 billion.

Total commitments to purchase broadcast programming approximated \$14.6 billion at September 30, 2002, including approximately \$1.1 billion for available programming. These amounts include approximately \$11.3 billion related to sports programming rights, including a six year agreement with the NBA to televise more than 100 regular and post-season games on the ABC Television Network and ESPN, an eight year contract for NFL programming, which commenced with the 1998 season, multiple contracts for college football programming, and two six year contracts for MLB programming, which commenced in fiscal 2001 and 2002, respectively.

Contractual commitments relating to broadcast programming rights are payable as follows (in millions):

2003	\$ 4,198
2004	3,107
2005	2,882
2006	2,296
2007	1,128
Thereafter	980
	<b>\$14,591</b>

The Company expects the ABC Television Network, ESPN and the Company's television and radio stations to continue to enter into programming commitments to purchase the broadcast rights for various feature films, sports and other programming.

Over the past year, significant changes have occurred in the commercial insurance market which are impacting the cost and availability of the Company's insurance coverage. The Company has successfully renewed all of its significant policies in this current fiscal year, though the premiums and deductibles have increased. During the third quarter of the current year, the Company established a wholly owned captive insurance company to insure certain components of loss exposure which were previously insured by third party insurance companies. Accordingly, the Company's risk of loss has increased.

As disclosed in the Notes 8 and 14 to the Consolidated Financial Statements, the Company has exposure for certain legal and tax matters. Management believes that it is currently not possible to estimate the impact, if any, that the ultimate resolution of these matters will have on the Company's financial position or cash flows.

As disclosed in Note 4 to the Consolidated Financial Statements, the Company's investment portfolio includes commercial aircraft leveraged lease investments made between 1992 and 1994 totaling \$289 million, which are diversified across three air carriers (United Airlines – \$114 million, Delta Airlines – \$119 million, and FedEx – \$56 million) and eleven aircraft. Risk of loss under these transactions is primarily related to the ability of the air carriers to make underlying lease payments.

We continue to monitor our investment in commercial aircraft leasing transactions given the current status of the airline industry. We have, in particular, been monitoring United Airlines which has indicated that if it does not obtain significant concessions from each of its employee unions, achieve cost savings in other operating areas of the company and obtain a loan guarantee from the Airline Transportation Stabilization Board, it will have to file for bankruptcy protection. To date, all payments on these leases have been

made when due. The inability of any of the companies to make their lease payments or the termination of our leases through a bankruptcy proceeding could result in material charges related to a write-down of some or all of our investment and could accelerate income tax payments.

The Company believes that its financial condition is strong and that its cash, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. However, the Company's operating cash flow and access to the capital markets can be impacted by macroeconomic factors outside of its control. In addition to macroeconomic factors, the Company's borrowing costs can be impacted by short- and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on the Company's performance as measured by certain credit measures such as interest coverage and leverage ratios. On October 4, 2002, Standard & Poor's Ratings Services lowered its long-term ratings on the Company to BBB+ from A- and removed the Company's ratings from CreditWatch where they were placed with negative implications on August 2, 2002. At the same time, the A-2 short-term corporate credit rating, which was not on CreditWatch, was affirmed. The current outlook is stable. On October 18, 2002, Moody's Investors Service downgraded the Company's long-term debt rating to Baa1 from A3, concluding the review for possible downgrade that commenced on August 5, 2002. The Company's short-term rating of P2 was affirmed and the outlook is stable.

#### **OTHER MATTERS**

##### **Accounting Policies and Estimates**

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, requires significant judgments and estimates on the part of management. For a summary of all of our accounting policies, including the accounting policies discussed below, see Note 2 of the Consolidated Financial Statements.

**Film and Television Revenues and Costs** We expense the cost of film and television production and participations as well as multi-year sports rights over the applicable product life cycle based upon the ratio of the current period's gross revenues to the estimated remaining total gross revenues. These estimates are calculated on an individual production basis for film and television and on an individual contract basis for sports rights. Estimates of total gross revenues can change due to a variety of factors, including the level of market acceptance, advertising rates and subscriber fees.

Television network and station rights for theatrical movies, series and other programs are charged to expense based on the number of times the program is expected to be shown. Estimates of usage of television network and station programming can change based on competition and audience acceptance. Accordingly, revenue estimates and planned usage are reviewed periodically and are revised if necessary. A change in revenue projections or planned usage could have an impact on our results of operations.

Costs of film and television productions and programming costs are subject to valuation adjustments pursuant to the applicable

accounting rules. The values of the television program licenses and rights are reviewed using a daypart methodology. The Company's dayparts are: early morning, daytime, late night, prime time, news, children and sports. A daypart is defined as an aggregation of programs broadcast during a particular time of day or programs of a similar type. Estimated values are based upon assumptions about future demand and market conditions. If actual demand or market conditions are less favorable than our projections, potentially significant film, television or programming cost write-downs may be required.

**Revenue Recognition** The Company has revenue recognition policies for its various operating segments, which are appropriate to the circumstances of each business. See Note 2 to the Consolidated Financial Statements for a summary of these revenue recognition policies.

We record reductions to revenues for estimated future returns of merchandise, primarily home video, DVD and software products, and for customer programs and sales incentives. These estimates are based upon historical return experience, current economic trends and projections of customer demand for and acceptance of our products. Differences may result in the amount and timing of our revenue for any period if actual performance varies from our estimates.

##### *Goodwill, Intangible Assets, Long-lived Assets and Investments*

Effective October 1, 2001, we adopted SFAS 142, as described more fully in Note 2 of the Consolidated Financial Statements. SFAS 142 requires that goodwill and other intangible assets be tested for impairment within six months of the date of adoption and then on a periodic basis thereafter. During the first half of the current fiscal year, we completed our impairment testing and determined that there were no impairment losses related to goodwill and other intangible assets. On October 1, 2002, we updated our impairment test and determined that there was no impairment. In assessing the recoverability of goodwill and other intangible assets, projections regarding estimated future cash flows and other factors are made to determine the fair value of the respective assets. If these estimates or related projections change in the future, we may be required to record impairment charges for these assets.

Long-lived assets include certain long-term investments. The fair value of the long-term investments is dependent on the performance of the companies we invest in, as well as volatility inherent in the external markets for these investments. In assessing potential impairment for these investments, we will consider these factors as well as forecasted financial performance of our investees. If these forecasts are not met, impairment charges may be required.

**Contingencies and Litigation** We are currently involved in certain legal proceedings and, as required, have accrued our estimate of the probable costs for the resolution of these claims. This estimate has been developed in consultation with outside counsel and is based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings. See Note 14 to the Consolidated Financial Statements for more detailed information on litigation exposure.

**Income Tax Audits** As a matter of course, the Company is regularly audited by Federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. Among current audits, the Internal Revenue Service (IRS) is in the final stages of its examination of the Company's federal income tax returns for 1993 through 1995. In connection with this examination, the IRS has proposed assessments that challenge certain of the Company's tax positions which, if upheld through the administrative and legal process, could have a material impact on the Company's earnings and cash flow. The Company believes that its tax positions comply with applicable tax law and it intends to defend its positions vigorously. The Company believes it has adequately provided for any reasonably foreseeable outcome related to these matters, and it does not anticipate any material earnings impact from their ultimate resolution. During 2002, the Company negotiated the settlement of a number of proposed assessments, and it continues to pursue favorable settlement of the remaining items. See Note 8 to the Consolidated Financial Statements for more detailed information on the Company's income tax exposure.

#### **Accounting Changes**

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, *Business Combinations* (SFAS 141), which requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method. SFAS 141 superseded APB Opinion No. 16, *Business Combinations*, and Statement of Financial Accounting Standards No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises* and is effective for all business combinations initiated after June 30, 2001.

Effective October 1, 2001, the Company adopted SFAS 142 which addresses the financial accounting and reporting for acquired goodwill and other intangible assets. As a result of adopting SFAS 142, goodwill and a substantial amount of the Company's intangible assets are no longer amortized. Pursuant to SFAS 142, intangible assets must be periodically tested for impairment, and the new standard provides six months to complete the impairment review. During the second quarter of fiscal 2002, the Company completed its impairment review, which indicated that there was no impairment. See Note 6 to the Consolidated Financial Statements.

The FASB also issued Statement of Financial Accounting Standards No. 143, *Accounting for Obligations Associated with the Retirement of Long-Lived Assets* (SFAS 143) in August 2001, which establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. The Company expects that the provisions of SFAS 143 will not have a material impact on its consolidated results of operations and financial position upon adoption. The Company plans to adopt SFAS 143 effective October 1, 2002.

The Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144) effective October 1, 2001, which did not have a material impact on the Company's consolidated results of operations and financial position. SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 requires that the initial measurement of a liability be at fair value. SFAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002 with early adoption encouraged. The Company plans to adopt SFAS 146 effective October 1, 2002 and does not expect that the adoption will have a material impact on its consolidated results of operations and financial position.

Effective October 1, 2000, the Company adopted AICPA Statement of Position No. 00-2, *Accounting by Producers or Distributors of Films* (SOP00-2). The Company's results of operations and financial position reflect the impact of the new standard commencing October 1, 2000 and the Company recorded a one-time after-tax charge of \$228 million, or \$0.11 per share, representing the cumulative effect of the adoption of SOP00-2 in its consolidated financial statements for the year ended September 30, 2001.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), subsequently amended by SFAS No. 137 and SFAS No. 138. SFAS 133 requires the Company to record all derivatives on the balance sheet at fair value. Changes in derivative fair values will either be recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of accumulated other comprehensive income (AOCI) until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value will be immediately recognized in earnings.

As a result of adopting SFAS 133 as of October 1, 2000, and in accordance with the transition provisions, the Company recorded a one-time after-tax charge of \$50 million, or \$0.02 per share, in its Consolidated Statements of Income representing the cumulative effect of the adoption and an after-tax unrealized gain of \$60 million to AOCI.

#### **Forward-Looking Statements**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. We may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our stockholders. Such statements may, for example, express expectations or projections about future actions that we may take, including restructuring or strategic initiatives or about developments beyond our control including changes in domestic or global economic conditions. These statements are made on the basis of management's views and assumptions as of the time the statements are made. There can be no assurance, however, that our expectations will necessarily come to pass.

*Factors that may affect forward-looking statements.* For an enterprise as large and complex as the Company, a wide range of factors could materially affect future developments and performance, including the following:

Changes in Company-wide or business-unit strategies, which may result in changes in the types or mix of businesses in which the Company is involved or chooses to invest;

Changes in U.S., global or regional economic conditions, which may affect attendance and spending at the Company's parks and resorts, purchases of Company-licensed consumer products, the advertising market for broadcast and cable television programming and the performance of the Company's theatrical and home entertainment releases;

Changes in U.S. and global financial and equity markets, including market disruptions and significant interest rate fluctuations, which may impede the Company's access to, or increase the cost of, external financing for its operations and investments;

Increased competitive pressures, both domestically and internationally, which may, among other things, affect the performance of the Company's parks and resorts operations and lead to increased expenses in such areas as television programming acquisition and motion picture production and marketing;

Legal and regulatory developments that may affect particular business units, such as regulatory actions affecting environmental activities, consumer products, theme park safety, broadcasting or Internet activities or the protection of intellectual property; the imposition by foreign countries of trade restrictions or motion picture or television content requirements or quotas, and changes in international tax laws or currency controls;

Adverse weather conditions or natural disasters, such as hurricanes and earthquakes, which may, among other things, impair performance at the Company's parks and resorts;

Technological developments that may affect the distribution of the Company's creative products or create new risks to the Company's ability to protect its intellectual property;

Labor disputes, which may lead to increased costs or disruption of operations in any of the Company's business units;

Changing public and consumer taste, which may among other things, affect the Company's entertainment, broadcasting and consumer products businesses generally or the Company's parks and resorts operating specifically, or result in increases in broadcasting losses or loss of advertising revenue; and

International, political and military developments that may affect among other things, travel and leisure businesses generally or the Company's parks and resorts operations specifically, or result in increases in broadcasting costs or loss of advertising revenue.

This list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

#### **M A R K E T   R I S K**

The Company is exposed to the impact of interest rate changes, foreign currency fluctuations and changes in the market values of its investments.

#### **P o l i c i e s   a n d   P r o c e d u r e s**

In the normal course of business, the Company employs established policies and procedures to manage its exposure to changes in interest rates, foreign currencies and the fair market value of certain of its investments in debt and equity securities using a variety of financial instruments.

Our objective in managing exposure to interest rate changes are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to the Company's portfolio of borrowings. The Company maintains fixed rate debt as a percentage of its net debt between a minimum and maximum percentage, which is set by policy.

Our objective in managing exposure to foreign currency fluctuations is to reduce earnings and cash flow volatility in order to allow management to focus on core business issues and challenges.

Accordingly, the Company enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues. The Company utilizes option strategies and forward contracts that provide for the sale of foreign currencies to hedge probable, but not firmly committed, revenues. The Company also uses forward contracts to hedge foreign currency assets and liabilities in the same principal currencies. The principal currencies hedged are European euro, British pound, Japanese yen and Canadian dollar. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed five years. The gains and losses on these contracts offset changes in the value of the related exposures.

In addition, we use various financial instruments to minimize the exposure to changes in fair market value of certain investments in debt and equity securities.

It is the Company's policy to enter into foreign currency and interest rate transactions and other financial instruments only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into these transactions for speculative purposes.

#### **Value at Risk**

The Company utilizes a "Value-at-Risk" (VAR) model to determine the maximum potential one-day loss in the fair value of its interest rate, foreign exchange and qualifying equity sensitive financial instruments. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Various modeling techniques can be used in a VAR computation. The Company's computations are based on the interrelationships between movements in various interest rates, currencies and equity prices (a "variance/covariance" technique). These interrelationships were determined by observing interest rate, foreign currency and equity market changes over the preceding quarter for the calculation of VAR amounts at year-end and over each of the four quarters for the calculation of average VAR amounts during the year. The model includes all of the Company's debt as well as all interest rate and foreign exchange derivative contracts and qualifying equity investments. The values of foreign exchange options do not change on a one-to-one basis with the underlying currencies, as exchange rates vary. Therefore, the hedge coverage assumed to be obtained from each option has been adjusted to reflect its respective sensitivity to changes in currency values. Forecasted transactions, firm commitments and receivables and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were excluded from the model.

The VAR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by the Company, nor does it consider the potential effect of favorable changes in market factors. See Note 13 to the Consolidated Financial Statements regarding the Company's financial instruments at September 30, 2002 and 2001.

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, is as follows (unaudited, in millions):

	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Combined Portfolio
VAR as of				
September 30, 2002	\$39	\$15	\$1	\$33
Average VAR during the year ended				
September 30, 2002	\$36	\$13	\$1	\$33
Highest VAR during the year ended				
September 30, 2002	\$40	\$15	\$3	\$36
Lowest VAR during the year ended				
September 30, 2002	\$27	\$10	\$1	\$27

## CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)	Year Ended September 30,		
	2002	2001	2000
Revenues	<b>\$ 25,329</b>	\$ 25,172	\$ 25,325
Costs and expenses	<b>(22,924)</b>	(21,573)	(21,567)
Amortization of intangible assets	(21)	(767)	(1,233)
Gain on sale of businesses	34	22	489
Net interest expense and other	<b>(453)</b>	(417)	(497)
Equity in the income of investees	<b>225</b>	300	208
Restructuring and impairment charges	—	(1,454)	(92)
Income before income taxes, minority interests and the cumulative effect of accounting changes	<b>2,190</b>	1,283	2,633
Income taxes	<b>(853)</b>	(1,059)	(1,606)
Minority interests	<b>(101)</b>	(104)	(107)
Income before the cumulative effect of accounting changes	<b>1,236</b>	120	920
Cumulative effect of accounting changes:			
Film accounting	—	(228)	—
Derivative accounting	—	(50)	—
Net income (loss)	<b>\$ 1,236</b>	\$ (158)	\$ 920
Earnings (loss) attributed to Disney common stock <sup>(1)</sup>	<b>\$ 1,236</b>	\$ (41)	\$ 1,196
Earnings per share before the cumulative effect of accounting changes attributed to Disney common stock: <sup>(1)</sup>			
Diluted	<b>\$ 0.60</b>	\$ 0.11	\$ 0.57
Basic	<b>\$ 0.61</b>	\$ 0.11	\$ 0.58
Cumulative effect of accounting changes per Disney share:			
Film accounting	<b>\$ —</b>	\$ (0.11)	\$ —
Derivative accounting	<b>\$ —</b>	(0.02)	—
	<b>\$ —</b>	\$ (0.13)	\$ —
Earnings (loss) per share attributed to Disney common stock: <sup>(1)</sup>			
Diluted	<b>\$ 0.60</b>	\$ (0.02)	\$ 0.57
Basic	<b>\$ 0.61</b>	\$ (0.02)	\$ 0.58
Average number of common and common equivalent shares outstanding for the Disney common stock:			
Diluted	<b>2,044</b>	2,100	2,103
Basic	<b>2,040</b>	2,085	2,074
Loss attributed to Internet Group common stock	<b>n/a</b>	\$ (117)	\$ (276)
Loss per share attributed to Internet Group common stock (basic and diluted)	<b>n/a</b>	\$ (2.72)	\$ (6.18)
Average number of common and common equivalent shares outstanding for the Internet Group common stock	<b>n/a</b>	43	45

<sup>(1)</sup> Including Disney's retained interest in the Internet Group. Disney's retained interest in the Internet Group reflects 100% of Internet Group losses through November 17, 1999, approximately 72% for the period from November 18, 1999 through January 28, 2001 (the last date prior to the announcement of the conversion of the Internet Group common stock) and 100% thereafter.

**CONSOLIDATED BALANCE SHEETS**

	September 30,	
(In millions, except per share data)	2002	2001
<i>Assets</i>		
Current Assets		
Cash and cash equivalents	\$ 1,239	\$ 618
Receivables	4,049	3,343
Inventories	697	671
Television costs	661	769
Deferred income taxes	624	622
Other assets	579	582
Total current assets	<b>7,849</b>	6,605
Film and television costs	5,959	5,641
Investments	1,810	2,112
Parks, resorts and other property, at cost		
Attractions, buildings and equipment	18,917	18,846
Accumulated depreciation	<u>(8,133)</u>	<u>(7,662)</u>
Total, parks, etc.	<b>10,784</b>	11,184
Projects in progress	1,148	911
Land	848	811
	<b>12,780</b>	12,906
Intangible assets, net	2,776	2,736
Goodwill	17,083	12,106
Other assets	1,788	1,704
	<b>\$50,045</b>	<b>\$43,810</b>
<i>Liabilities and Stockholders' Equity</i>		
Current Liabilities		
Accounts payable and other accrued liabilities	\$ 5,173	\$ 4,404
Current portion of borrowings	1,663	829
Unearned royalties and other advances	983	787
Total current liabilities	<b>7,819</b>	6,020
Borrowings	12,467	8,940
Deferred income taxes	2,597	2,729
Other long-term liabilities	3,283	3,067
Minority interests	434	382
Commitments and contingencies (Note 14)		
Stockholders' Equity		
Preferred stock, \$.01 par value		
Authorized – 100 million shares, Issued – none		
Common stock		
Common stock – Disney, \$.01 par value		
Authorized – 3.6 billion shares, Issued – 2.1 billion shares	12,107	12,096
Common stock – Internet Group, \$.01 par value		
Authorized – 1.0 billion shares, Issued – none		
Retained earnings	12,979	12,171
Accumulated other comprehensive (loss) income	<u>(85)</u>	10
Treasury stock, at cost, 81.4 million Disney shares	<b>25,001</b>	24,277
Shares held by TWDC Stock Compensation Fund II, at cost	<u>(1,395)</u>	<u>(1,395)</u>
Disney – 6.6 million and 8.6 million shares	<u>(161)</u>	<u>(210)</u>
	<b>23,445</b>	22,672
	<b>\$50,045</b>	<b>\$43,810</b>

See Notes to Consolidated Financial Statements

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)	Year Ended September 30,		
	2002	2001	2000
<i>Net Income (Loss)</i>	<b>\$ 1,236</b>	\$ (158)	\$ 920
<i>Operating Items Not Requiring Cash</i>			
Depreciation	1,021	987	962
Amortization of intangible assets	21	767	1,233
Gain on sale of businesses	(34)	(22)	(489)
Equity in the income of investees	(225)	(300)	(208)
Restructuring and impairment charges	—	1,247	92
Minority interests	101	104	107
Cumulative effect of accounting changes	—	278	—
Film and television costs	(97)	(13)	(210)
Other	364	402	164
	<b>1,151</b>	3,450	1,651
<i>Changes In Working Capital</i>			
Receivables	(535)	279	223
Inventories	(35)	54	65
Other assets	(86)	6	36
Accounts and taxes payable and other accrued liabilities	225	(435)	436
Television costs	404	(149)	402
Deferred income taxes	(74)	1	22
	<b>(101)</b>	(244)	1,184
Cash provided by operations	<b>2,286</b>	3,048	3,755
<i>Investing Activities</i>			
Investments in parks, resorts and other property	(1,086)	(1,795)	(2,013)
Acquisitions (net of cash acquired)	(2,845)	(480)	(34)
Dispositions	200	137	913
Proceeds from sale of investments	601	235	207
Purchases of investments	(9)	(88)	(82)
Investments in Euro Disney	—	—	(91)
Other	(37)	(24)	9
	<b>(3,176)</b>	(2,015)	(1,091)
<i>Financing Activities</i>			
Borrowings	4,038	3,070	1,117
Reduction of borrowings	(2,113)	(2,807)	(2,494)
Commercial paper borrowings, net	(33)	(186)	(741)
Exercise of stock options and other	47	177	482
Repurchases of common stock	—	(1,073)	(166)
Dividends	(428)	(438)	(434)
	<b>1,511</b>	(1,257)	(2,236)
Increase (decrease) in cash and cash equivalents	621	(224)	428
Cash and cash equivalents, beginning of year	618	842	414
Cash and cash equivalents, end of year	<b>\$ 1,239</b>	\$ 618	\$ 842
<i>Supplemental disclosure of cash flow information:</i>			
Interest paid	<b>\$ 674</b>	\$ 625	\$ 583
Income taxes paid	<b>\$ 447</b>	\$ 881	\$ 1,170

See Notes to Consolidated Financial Statements

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(In millions, except per share data)	Shares		Common Stock		Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	TWDC Stock Compensation Fund		Stockholders' Equity Total
	DIS	DIG	DIS	DIG				DIS	DIG	
<i>Balance at September 30, 1999</i>	2,064	—	\$ 9,324	\$ —	\$12,281	\$(25)	\$ (605)	\$ —	\$ —	\$20,975
Common stock issued	—	44	—	2,149	—	—	—	—	—	2,149
Exercise of stock options, net	27	2	596	32	—	—	(84)	115	—	659
Common stock repurchased	(5)	(1)	—	—	—	—	—	(155)	(11)	(166)
Dividends (\$0.21 per Disney share)	—	—	—	—	(434)	—	—	—	—	(434)
Other comprehensive (loss)	—	—	—	—	—	(3)	—	—	—	(3)
(net of tax benefit of \$30 million)	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	920	—	—	—	—	920
<i>Balance at September 30, 2000</i>	2,086	45	9,920	2,181	12,767	(28)	(689)	(40)	(11)	24,100
Common stock issued (cancellation)	—	(1)	—	(22)	—	—	—	—	—	(22)
Exercise of stock options, net	8	—	17	—	—	—	—	208	—	225
Common stock repurchased	(64)	(2)	—	—	—	—	(706)	(357)	(10)	(1,073)
Conversion of DIG shares	8	(42)	2,159	(2,159)	—	—	—	(21)	21	—
Dividends (\$0.21 per Disney share)	—	—	—	—	(438)	—	—	—	—	(438)
Other comprehensive income	—	—	—	—	—	38	—	—	—	38
(net of tax expense of \$23 million)	—	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	(158)	—	—	—	—	(158)
<i>Balance at September 30, 2001</i>	2,038	—	12,096	—	12,171	10	(1,395)	(210)	—	22,672
Exercise of stock options, net	3	—	11	—	—	—	—	49	—	60
Dividends (\$0.21 per Disney share)	—	—	—	—	(428)	—	—	—	—	(428)
Other comprehensive (loss)	—	—	—	—	—	(95)	—	—	—	(95)
(net of tax benefit of \$56 million)	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	1,236	—	—	—	—	1,236
<i>Balance at September 30, 2002</i>	<b>2,041</b>	—	<b>\$12,107</b>	\$ —	<b>\$12,979</b>	<b>\$85</b>	<b>\$1,395</b>	<b>\$161</b>	\$ —	<b>\$23,445</b>

Comprehensive income (loss) is as follows:

	2002	2001	2000
Net income (loss)	<b>\$1,236</b>	\$(158)	\$920
Cumulative effect of adoption of SFAS 133, net of tax	—	60	—
Market value adjustments for investments and hedges, net of tax	(101)	(18)	15
Foreign currency translation and other, net of tax	6	(4)	(18)
Comprehensive income (loss)	<b>\$1,141</b>	\$(120)	\$917

See Notes to Consolidated Financial Statements

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Tabular dollars in millions, except per share amounts)

**NOTE 1. DESCRIPTION OF THE BUSINESS AND SEGMENT INFORMATION**

The Walt Disney Company, together with the subsidiaries through which the Company's businesses are conducted (the Company), is a diversified worldwide entertainment company with operations in the following business segments: Media Networks, Parks and Resorts, Studio Entertainment and Consumer Products.

**DESCRIPTION OF THE BUSINESS****MEDIA NETWORKS**

The Company operates the ABC Television Network and the ABC Radio Networks, which have affiliated stations providing coverage to households throughout the United States. The Company also owns television and radio stations, most of which are affiliated with either the ABC Television Network or the ABC Radio Networks. The Company's cable/satellite and international broadcast operations are principally involved in the production and distribution of cable television programming, the licensing of programming to domestic and international markets and investing in foreign television broadcasting, production and distribution entities. Primary cable/satellite programming services, which operate through consolidated subsidiary companies, are ESPN-branded networks, the Disney Channel, Disney Channel Worldwide, SOAPnet, Toon Disney, ABC Family Channel and Fox Kids channels in Europe and Latin America. Other programming services that operate through joint ventures, and are accounted for under the equity method, include A&E Television Networks, Lifetime Entertainment Services and E! Entertainment Television. The Company also produces original television programming for network, first-run syndication, pay and international syndication markets. Additionally, the Company operates ABC-, ESPN-, and Disney-branded Internet web site businesses.

**PARKS AND RESORTS**

The Company operates the Walt Disney World Resort in Florida and the Disneyland Resort in California. The Walt Disney World Resort includes the Magic Kingdom, Epcot, Disney-MGM Studios and Disney's Animal Kingdom, thirteen resort hotels, a retail, dining and entertainment complex, a sports complex, conference centers, campgrounds, golf courses, water parks and other recreational facilities. In addition, Disney Cruise Line is operated out of Port Canaveral, Florida. The Disneyland Resort includes Disneyland, Disney's California Adventure, three resort hotels and Downtown Disney. Disney's Regional Entertainment operates sports-themed ESPN Zone dining and entertainment facilities. The Company earns royalties on revenues generated by the Tokyo Disneyland Resort, which includes two theme parks and two Disney-branded hotels, near Tokyo, Japan, and is owned and operated by an unrelated Japanese corporation. The Company has an investment in Euro Disney S.C.A. (Euro Disney), a publicly held French entity that operates Disneyland Resort Paris, which includes the Disneyland Park, the Walt Disney Studio Park, seven themed hotels, two convention centers, the Disney Village, a shopping, dining and entertainment center and a 27 hole golf facility. The Company earns royalties on Disneyland Resort Paris revenues. A subsidiary of the Company also receives management fees from Euro

Disney. The Company's Walt Disney Imagineering unit designs and develops new theme park concepts and attractions, as well as resort properties. The Company also manages and markets vacation ownership interests in the Disney Vacation Club. Included in Parks & Resorts are the Company's National Hockey League franchise, the Mighty Ducks of Anaheim, and the Anaheim Angels, a Major League Baseball team.

**STUDIO ENTERTAINMENT**

The Company produces and acquires live-action and animated motion pictures for distribution to the theatrical, home video and television markets. The Company also produces original animated television programming for network, first-run syndication, pay and international syndication markets, stage plays and musical recordings. The Company distributes these products through its own distribution and marketing companies in the United States and most foreign markets under the Walt Disney Pictures, Touchstone Pictures, Hollywood Pictures, Miramax and Dimension banners.

**CONSUMER PRODUCTS**

The Company licenses the name "Walt Disney," as well as the Company's characters and, visual and literary properties, to various manufacturers, retailers, show promoters and publishers throughout the world. The Company also engages in direct retail distribution, principally through the Disney Stores, and produces books and magazines for the general public in the United States and Europe. In addition, the Company produces computer software products for the entertainment market, as well as film, video and computer software products for the educational marketplace. The Company's Direct Marketing business operates the Disney Catalog, which markets Disney-themed merchandise through the direct mail channel. Catalog offerings include merchandise developed exclusively for the Disney Catalog and DisneyStore.com, as well as products from the Disney Store, other internal Disney partners and Disney licensees.

**SEGMENT INFORMATION**

The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies.

Segment operating results evaluated include earnings before corporate and unallocated shared expenses, amortization of intangible assets, gain on sale of businesses, net interest expense and other, equity in the income of investees, restructuring and impairment charges, income taxes and minority interests. Corporate and unallocated shared expenses principally consist of executive management and certain unallocated administrative support functions.

The following segment results include allocations of certain costs, including certain information technology costs, pension, legal and other shared services, which are allocated based on consumption. In addition, while all significant intersegment transactions have been eliminated, Studio Entertainment revenues and operating income

include an allocation of Consumer Products revenues, which is meant to reflect a portion of Consumer Products revenues attributable to certain film properties. These allocations are agreed-upon amounts between the businesses and may differ from amounts that would be negotiated in an arm's-length transaction.

<i>Business Segments</i>	<b>2002</b>	2001	2000
<i>Revenues</i>			
Media Networks	<b>\$ 9,733</b>	\$ 9,569	\$ 9,836
Parks and Resorts	<b>6,465</b>	7,004	6,809
Studio Entertainment			
Third parties	<b>6,622</b>	5,952	5,837
Intersegment	<b>69</b>	57	81
	<b>6,691</b>	6,009	5,918
Consumer Products			
Third parties	<b>2,509</b>	2,647	2,843
Intersegment	<b>(69)</b>	(57)	(81)
	<b>2,440</b>	2,590	2,762
Total consolidated revenues	<b>\$25,329</b>	\$25,172	\$25,325
<i>Segment operating income</i>			
Media Networks	<b>\$ 986</b>	\$ 1,758	\$ 1,985
Parks and Resorts	<b>1,169</b>	1,586	1,615
Studio Entertainment	<b>273</b>	260	126
Consumer Products	<b>394</b>	401	386
Total segment operating income	<b>\$ 2,822</b>	\$ 4,005	\$ 4,112
Segment operating income	<b>\$ 2,822</b>	\$ 4,005	\$ 4,112
Corporate and unallocated shared expenses	<b>(417)</b>	(406)	(354)
Amortization of intangible assets	<b>(21)</b>	(767)	(1,233)
Gain on sale of businesses	<b>34</b>	22	489
Net interest expense and other	<b>(453)</b>	(417)	(497)
Equity in the income of investees	<b>225</b>	300	208
Restructuring and impairment charges	—	(1,454)	(92)
Income before income taxes, minority interests and the cumulative effect of accounting changes	<b>\$ 2,190</b>	\$ 1,283	\$ 2,633
<i>Capital expenditures</i>			
Media Networks	<b>\$ 151</b>	\$ 207	\$ 249
Parks and Resorts	<b>636</b>	1,278	1,524
Studio Entertainment	<b>37</b>	36	50
Consumer Products	<b>58</b>	70	73
Corporate	<b>204</b>	204	117
Total consolidated capital expenditures	<b>\$ 1,086</b>	\$ 1,795	\$ 2,013

<i>Business Segments</i>	<b>2002</b>	2001	2000
<i>Depreciation expense</i>			
Media Networks	<b>\$ 180</b>	\$ 176	\$ 169
Parks and Resorts	<b>648</b>	604	582
Studio Entertainment	<b>46</b>	47	54
Consumer Products	<b>58</b>	90	109
Corporate	<b>89</b>	70	48
Total consolidated depreciation expense	<b>\$ 1,021</b>	\$ 987	\$ 962
<i>Amortization expense</i>			
Media Networks	<b>\$ 8</b>	\$ 748	\$ 1,209
Parks and Resorts	<b>9</b>	15	21
Studio Entertainment	<b>1</b>	3	1
Consumer Products	<b>3</b>	1	2
Total consolidated amortization expense	<b>\$ 21</b>	\$ 767	\$ 1,233
<i>Identifiable assets</i>			
Media Networks <sup>(1)(2)</sup>	<b>\$26,038</b>	\$20,374	
Parks and Resorts <sup>(1)</sup>	<b>11,305</b>	11,369	
Studio Entertainment	<b>7,879</b>	6,675	
Consumer Products	<b>1,125</b>	1,041	
Corporate <sup>(3)</sup>	<b>3,698</b>	4,351	
Total consolidated assets	<b>\$50,045</b>	\$43,810	
<i>Supplemental revenue data</i>			
Media Networks			
Advertising	<b>\$ 5,174</b>	\$ 5,988	\$ 6,637
Subscription revenue	<b>2,839</b>	2,466	2,024
Parks and Resorts			
Merchandise, food and beverage	<b>1,987</b>	2,046	2,094
Admissions	<b>1,819</b>	2,050	2,006

<i>Geographic Segments</i>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<i>Revenues</i>			
United States and Canada	<b>\$20,770</b>	\$20,895	\$21,036
Europe	<b>2,724</b>	2,599	2,745
Asia Pacific	<b>1,325</b>	1,232	1,150
Latin America and Other	<b>510</b>	446	394
	<b>\$25,329</b>	\$25,172	\$25,325
<i>Segment operating income</i>			
United States and Canada	<b>\$ 1,739</b>	\$ 3,045	\$ 3,332
Europe	<b>499</b>	533	471
Asia Pacific	<b>545</b>	437	320
Latin America and Other	<b>39</b>	(10)	(11)
	<b>\$ 2,822</b>	\$ 4,005	\$ 4,112
<i>Identifiable assets</i>			
United States and Canada	<b>\$47,241</b>	\$41,961	
Europe	<b>2,355</b>	1,428	
Asia Pacific	<b>329</b>	292	
Latin America and Other	<b>120</b>	129	
	<b>\$50,045</b>	\$43,810	

<sup>(1)</sup>Identifiable assets include amounts associated with equity method investments, including notes and other receivables, as follows:

Media Networks	<b>\$860</b>	\$792
Parks and Resorts	<b>459</b>	408

<sup>(2)</sup>Includes Goodwill and other intangible assets totaling \$19,360 in 2002 and \$14,351 in 2001.

<sup>(3)</sup>Primarily deferred tax assets, other investments, fixed and other assets.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation** The consolidated financial statements of the Company include the accounts of The Walt Disney Company and its subsidiaries after elimination of intercompany accounts and transactions. In December 1999, DVD Financing, Inc. (DFI), a subsidiary of Disney Vacation Development, Inc. and an indirect subsidiary of the Company, completed a receivable sale transaction. In connection with this sale, DFI prepares separate financial statements, although its separate assets and liabilities are also consolidated in these financial statements.

**Accounting Changes** In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, *Business Combinations* (SFAS 141), which requires all business combinations initiated after June 30, 2001 be accounted for under the purchase method.

Effective October 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 142 addresses the financial accounting and reporting for acquired goodwill and other intangible assets with indefinite lives. As a result of adopting SFAS 142, goodwill and a substantial amount of the Company's intangible assets are no longer amortized. Pursuant to SFAS 142, intangible assets must be periodically tested for impairment, and the new standard provides six months to complete the impairment review. During fiscal 2002, the

Company completed its impairment review, which indicated that there was no impairment (see Note 6).

The FASB issued Statement of Financial Accounting Standards No. 143, *Accounting for Obligations Associated with the Retirement of Long-lived Assets* (SFAS 143) in August 2001. SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. The Company expects that the provisions of SFAS 143 will not have a material impact on its consolidated results of operations and financial position upon adoption. The Company plans to adopt SFAS 143 effective October 1, 2002.

The Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* (SFAS 144), effective October 1, 2001, which did not have a material impact on the Company's consolidated results of operations and financial position. SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 requires that the initial measurement of a liability be at fair value. The Company plans to adopt SFAS 146 effective October 1, 2002 and does not expect that the adoption will have a material impact on its consolidated results of operations and financial position.

Effective October 1, 2000, the Company adopted two new accounting pronouncements, AICPA Statement of Position No. 00-2, *Accounting by Producers or Distributors of Films* (SOP00-2) and Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), subsequently amended by Statement of Financial Accounting Standards No. 138 (SFAS 138).

SOP00-2 establishes new accounting standards for producers and distributors of films, which resulted in changes in revenue recognition and accounting for exploitation costs, including advertising and marketing expenses and development and overhead costs. As a result of the adoption of SOP00-2, the Company recorded a one-time after-tax charge of \$228 million, or \$0.11 per share, representing the cumulative effect of the adoption. The charge represents costs that were capitalized as of September 30, 2000, that would have been expensed under the new rules. The adoption of SOP00-2 did not have a material impact on operating results.

SFAS 133 and SFAS 138 require that the Company record all derivatives on the balance sheet at fair value. Changes in derivative fair values that are designated as fair value hedges are recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments. Changes in the derivative fair values that are designated as cash flow hedges are deferred and recorded as a component of accumulated other comprehensive income (AOCI) until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value is immediately recognized in earnings. Derivatives that are executed for risk management purposes but not designated as hedges under SFAS 133 and SFAS 138 are recorded at their market value and recognized in current earnings.

As a result of adopting SFAS 133 as of October 1, 2000, and in accordance with the transition provisions, the Company recorded a one-time after-tax charge of \$50 million, or \$0.02 per share, in its Consolidated Statements of Income representing the cumulative effect of the adoption, and an after-tax unrealized gain of \$60 million to AOCI. The adoption of SFAS 133 did not have a material impact on operating results.

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ from those estimates.

**Revenue Recognition** Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video sales are recognized on the date that video units are made widely available for sale by retailers. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecasting by the licensee and when certain other conditions are met.

Broadcast advertising revenues are recognized when commercials are aired. Revenues from television subscription services related to the Company's primary cable programming services are recognized as services are provided.

Merchandise licensing advance and guarantee payments are recognized when the underlying royalties are earned.

Revenues from advance theme park ticket sales are recognized when the tickets are used. Revenues from participants at the theme parks are generally recorded over the period of the applicable agreements commencing with the opening of the related attraction.

Internet advertising revenues are recognized on the basis of impression views in the period the advertising is displayed, provided that no significant obligations remain and collection of the resulting receivable is probable. Direct marketing and Internet-based merchandise revenues are recognized upon shipment to customers.

**Advertising Expense** Advertising costs are expensed as incurred. For the years ended September 30, 2002, 2001 and 2000, the Company incurred advertising expense totaling \$2.3 billion, \$2.2 billion and \$2.0 billion, respectively.

**Cash and Cash Equivalents** Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

**Investments** Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and reported at amortized cost. Debt securities not classified as held-to-maturity and marketable equity securities are classified as either "trading" or "available-for-sale," and are recorded at fair value with unrealized gains and losses included in earnings or stockholders' equity, respectively. All other equity securities are accounted for using either the cost method or the equity method.

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the Consolidated Statements of Income.

**Inventories** Carrying amounts of merchandise, materials and supplies inventories are generally determined on a moving average cost basis and are stated at the lower of cost or market.

**Film and Television Costs** Film and television costs that are produced are stated at the lower of cost, less accumulated amortization, or fair value. Acquired programming costs for the Company's television and cable/satellite networks are stated at the lower of cost, less accumulated amortization, or net realizable value. Acquired television broadcast program licenses and rights and related liabilities are recorded when the license period begins and the program is available for use.

Film and television production and participation costs are expensed based on the ratio of the current period's gross revenues to estimated remaining total gross revenues from all sources on an individual production basis. Television network and station rights for theatrical movies and other long-form programming are charged to expense primarily on an accelerated basis related to the usage of the programs. Television network series costs and multi-year sports rights are charged to expense based on the ratio of the current period's gross revenues to estimated remaining total gross revenues from such programs.

Estimates of total gross revenues can change significantly due to a variety of factors, including the level of market acceptance of film and television products, advertising rates and subscriber fees. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted, if necessary. Such adjustments could have a material effect on results of operations in future periods. The net realizable value of television broadcast program licenses and rights is reviewed using a daypart methodology.

**Capitalized Software Costs** The Company expenses costs incurred in the preliminary project stage of developing or obtaining internal use software, such as research and feasibility studies, as well as costs incurred in the post-implementation/operational stage, such as maintenance and training. Capitalization of software development costs occurs only after the preliminary project stage is complete, management authorizes the project, and it is probable that the project will be completed and the software will be used for the function intended. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software, which is generally five years.

**Parks, Resorts and Other Property** Parks, resorts and other property are carried at cost. Depreciation is computed on the straight-line method based upon estimated useful lives as follows:

Attractions	25–40 years
Buildings and improvements	40 years
Leasehold improvements	Life of lease
Land improvements	25 years
Equipment	2–10 years
Furniture and fixtures	2–10 years

**Goodwill and Intangible Assets** The Company performs an annual impairment test for goodwill and intangible assets. Goodwill and intangible assets are allocated to various reporting units, which are either the operating segment or one reporting level below the operating segment. The Company's reporting units for purposes of applying the provisions of SFAS 142 are: Cable Networks, Television Broadcasting, Radio, Studio Entertainment, Consumer Products and Parks and Resorts. SFAS 142 requires the Company to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill and intangible assets within the reporting unit is less than their carrying value. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized. Fair values for goodwill and intangible assets are determined based on discounted cash flows, market multiples or appraised values as appropriate.

Amortizable intangible assets are amortized on a straight-line basis based upon estimated useful lives as follows:

Intellectual property copyrights	10–31 years
Stadium facility leases	33 years
Other	4–50 years

**Risk Management Contracts** In the normal course of business, the Company employs a variety of financial instruments to manage its exposure to fluctuations in interest rates, foreign currency exchange rates and investments in equity and debt securities, including interest rate and cross-currency swap agreements; forward, option and "swap-on" contracts, and interest rate caps.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. There are two types of derivatives into which the Company enters: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset, liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction (i.e. forecasted revenue) or the variability of cash flows to be paid related to a recognized liability (i.e. floating rate debt).

The Company designates and assigns the financial instruments as hedges of forecasted transactions, specific assets, or specific liabilities. When hedged assets or liabilities are sold or extinguished or the

forecasted transactions being hedged are no longer expected to occur, the Company recognizes the gain or loss on the designated hedging financial instruments.

Option premiums and unrealized losses on forward contracts and the accrued differential for interest rate and cross-currency swaps to be received under the agreements are recorded on the balance sheet as other assets. Unrealized gains on forward contracts and the accrued differential for interest rate and cross-currency swaps to be paid under the agreements are included in accounts payable and other accrued liabilities. Realized gains and losses from hedges are classified in the income statement consistent with the accounting treatment of the items being hedged. The Company accrues the differential for interest rate and cross-currency swaps to be paid or received under the agreements as interest and exchange rates shift as adjustments to interest expense over the lives of the swaps. Gains and losses on the termination of effective swap agreements, prior to their original maturity, are deferred and amortized to interest expense over the remaining term of the underlying hedged transactions.

Cash flows from hedges are classified in the Consolidated Statements of Cash Flows under the same category as the cash flows from the related assets, liabilities or forecasted transactions (see Notes 7 and 13).

**Earnings Per Share** The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS amounts are based upon the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. The difference between basic and diluted EPS, for the Company, is solely attributable to stock options. The Company uses the treasury stock method to calculate the impact of outstanding stock options. Stock options for which the exercise price exceeds the average market price over the period have an anti-dilutive effect on EPS and, accordingly, are excluded from the calculation.

For the years ended September 30, 2002, 2001 and 2000, options for 156 million, 81 million and 20 million shares, respectively, were excluded from the diluted EPS calculation for Disney common stock because they were anti-dilutive.

**Stock Options** The Company uses the intrinsic-value method of accounting for stock-based awards granted to employees and, accordingly, does not currently recognize compensation expense for its stock-based awards to employees in the Consolidated Statements of Income. See Note 11 for pro forma information on the impact of the fair-value method of accounting for stock options.

**Reclassifications** Certain reclassifications have been made in the 2001 and 2000 financial statements to conform to the 2002 presentation.

### **NOTE 3. SIGNIFICANT ACQUISITIONS AND DISPOSITIONS**

On October 24, 2001, the Company acquired Fox Family Worldwide, Inc. (FFW) for \$5.2 billion, funded with \$2.9 billion of new long-term borrowings plus the assumption of \$2.3 billion of FFW long-term debt. Upon the closing of the acquisition, the Company changed FFW's name to ABC Family Worldwide, Inc. (ABC Family). Among the businesses acquired were the Fox Family Channel, which has been renamed ABC Family Channel, a programming service that currently reaches approximately 85 million cable and satellite television subscribers throughout the U.S.; a 76% interest in Fox Kids Europe, which reaches more than 31 million subscribers across Europe; Fox Kids channels in Latin America, and the Saban library and entertainment production businesses.

Our motivation for the acquisition was to acquire a fully integrated cable channel as well as a significant international cable presence and therefore increase shareholder value. We believe that we can reach this objective through the use of new strategies that include cross promotion with our other television properties, repurposing a portion of the programming of the ABC Television Network, utilizing programming from the Disney and ABC libraries, developing original programming and by reducing operating costs.

The acquisition of ABC Family has been accounted for in accordance with SFAS 141. The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values at the date of acquisition. Fair values were determined by internal studies and independent third party appraisals.

The following table summarizes the final purchase price allocation of ABC Family's assets acquired and liabilities assumed at the date of acquisition.

Receivables	\$ 182
Programming costs	309
Other assets	535
Intangible assets	47
Goodwill	4,996
Total assets	<u>6,069</u>
Accounts payable and accrued liabilities	(555)
Other liabilities	(269)
Minority interest	(49)
Total liabilities	<u>(873)</u>
Fair value of net assets acquired	5,196
Borrowings and preferred stock assumed	(2,371)
Cash purchase price, net of cash acquired	<u>\$ 2,825</u>

The excess of the purchase price over the fair value of the identifiable net assets acquired of approximately \$5.0 billion was allocated to goodwill that was assigned to the Cable Networks reporting unit within the Media Networks segment. None of this amount is expected to be deductible for tax purposes.

The Company's consolidated results of operations have incorporated ABC Family's activity on a consolidated basis from October 24, 2001, the date of acquisition. On an unaudited pro forma basis,

adjusting only for the assumption that the acquisition of ABC Family and related incremental borrowings had occurred at the beginning of fiscal 2001, revenues for the year ended September 30, 2002 and 2001 were \$25,360 million and \$25,803 million, respectively. As-reported and unaudited pro forma net income (loss) and earnings (loss) per share for fiscal 2002 were approximately the same. The unaudited pro forma earnings per share impact on fiscal 2001 was approximately \$0.01 dilutive, assuming that the incremental acquisition goodwill had not been amortized in the prior year pursuant to the new goodwill accounting rules. The unaudited pro forma information is not necessarily indicative of the results of operations had the acquisition actually occurred at the beginning of fiscal 2001, nor is it necessarily indicative of future results.

In fiscal 2002, the Company sold the Disney Store operations in Japan generating a pre-tax gain of \$34 million. In fiscal 2001, the Company sold Infoseek Japan K.K. generating a \$22 million pre-tax gain and in fiscal 2000 it sold Fairchild Publications, Ultraseek Corporation and Eurosport generating pre-tax gains of \$243 million, \$153 million and \$93 million, respectively. These gains are reported in the line "Gain on sale of businesses" in the Consolidated Statements of Income.

On March 20, 2001, the Company converted all of its outstanding Internet Group common stock into Disney common stock, resulting in the issuance of approximately 8.6 million shares of Disney common stock. For the year ended September 30, 2001, earnings attributed to Disney common stock reflect approximately 72% of Internet Group losses from October 1, 2000 through January 28, 2001 (the last date prior to the announcement of the conversion), and 100% thereafter. In addition, the Company has ceased the operations of the GO.com portal business, which resulted in restructuring and impairment charges of \$878 million in fiscal 2001 (see Note 15).

### **NOTE 4. INVESTMENTS**

Investments consist of the following:

	2002	2001
Investments, at equity <sup>(1)</sup>	\$ 970	\$ 932
Investments, at cost <sup>(2)</sup>	162	564
Investment in leveraged leases	289	289
Notes receivable and other investments	389	327
	<u>\$1,810</u>	<u>\$2,112</u>

<sup>(1)</sup>Equity investments consist of investments in affiliated companies over which the Company has significant influence or ownership of 20% or more but less than or equal to 50%

<sup>(2)</sup>Cost investments consist of marketable securities classified as available-for-sale and investments in affiliated companies over which the Company does not have significant influence and ownership of less than 20%

**Euro Disney and Other Equity Investments** Euro Disney operates the Disneyland Resort Paris on a 4,800-acre site near Paris, France. The Company accounts for its 39% ownership interest in Euro Disney using the equity method of accounting. As of September 30, 2002, the Company's recorded investment in Euro Disney, including accounts and notes receivable, was \$424 million.

In connection with the financial restructuring of Euro Disney in 1994, Euro Disney Associés S.N.C. (Disney SNC), a wholly-owned affiliate of the Company, entered into a lease arrangement with a noncancelable term of 12 years related to substantially all of the Disneyland Park assets, and then entered into a 12-year sublease agreement with Euro Disney. Remaining lease rentals at September 30, 2002 of approximately \$702 million receivable from Euro Disney under the sublease approximate the amounts payable by Disney SNC under the lease. At the conclusion of the sublease term, Euro Disney will have the option to assume Disney SNC's rights and obligations under the lease. If Euro Disney does not exercise its option, Disney SNC may purchase the assets, continue to lease the assets or elect to terminate the lease, in which case Disney SNC would make a termination payment to the lessor equal to 75% of the lessor's then outstanding debt related to the Disneyland Park assets, which is estimated to be \$1.1 billion; Disney SNC could then sell or lease the assets on behalf of the lessor to satisfy the remaining debt, with any excess proceeds payable to Disney SNC.

Also, as part of the restructuring, the Company agreed to provide a 10-year unsecured standby credit facility of approximately \$164 million, bearing interest at the Paris Interbank Offered Rate (PIBOR). As of September 30, 2002, Euro Disney had drawn \$61 million under this facility. It is expected that Euro Disney will draw additional amounts under the line of credit during fiscal 2003. The Company also agreed, as long as any of the restructured debt is outstanding, to maintain ownership of at least 25% of the outstanding common stock of Euro Disney through June 2004 and at least 16.67% for an additional term thereafter.

After a five-year waiver resulting from the restructuring, royalties and management fees from Euro Disney were partially reinstated beginning fiscal year 1999. As a result, the Company earned approximately \$33 million, \$28 million and \$30 million in royalties and management fees in fiscal years 2002, 2001 and 2000, respectively. Royalties are to be fully reinstated beginning in fiscal year 2004, with management fees progressively reinstated through fiscal year 2018.

In November 1999, Euro Disney stockholders approved an increase in share capital through an equity rights offering. The offering raised \$238 million. The net proceeds were used to partially finance the construction of a second theme park, Walt Disney Studios which opened on March 16, 2002. The Company subscribed to approximately \$91 million of the equity rights offering, maintaining its 39% interest in Euro Disney.

Since the opening of the Walt Disney Studios, Euro Disney's attendance and occupancy at its parks and resorts have increased, although attendance growth has been below original expectations. Because of Euro Disney's limited cash resources and its significant debt burden, including the obligation to repay the line of credit with the Company in June 2004, Euro Disney will need to experience continued steady growth in operating income in order to meet its cash needs. If this growth is not sufficient to provide the needed funding, additional financing may be required. There can be no assurance that Euro Disney would be able to secure such additional financing, and if such financing can be arranged, the terms thereof may be less favorable than current financing arrangements.

A summary of U.S. GAAP financial information for Euro Disney is as follows:

	2002	2001	2000
<i>Results of Operations:</i>			
Revenues	\$ 909	\$ 905	\$ 980
Cost and expenses	(891)	(871)	(942)
Net interest expense and other	(75)	(80)	(105)
Loss before income taxes	(57)	(46)	(67)
Income taxes	—	—	—
Net loss	\$ (57)	\$ (46)	\$ (67)
<i>Balance Sheet:</i>			
Cash and cash equivalents	\$ 66	\$ 543	
Other current assets	188	212	
Total current assets	254	755	
Parks, resorts and other property, net	2,605	2,319	
Other non-current assets	142	143	
	<b>\$3,001</b>	<b>\$3,217</b>	
Accounts payable and other accrued liabilities	\$ 412	\$ 406	
Current portion of borrowings	47	375	
Other current liabilities	144	148	
Total current liabilities	603	929	
Borrowings	2,126	1,957	
Other non-current liabilities	162	168	
Stockholders' equity	110	163	
	<b>\$3,001</b>	<b>\$3,217</b>	

In addition to the Company's investment in Euro Disney, the Company has other equity investments, primarily comprised of cable investments such as A&E Television Networks (37.5% owned), Lifetime Entertainment Services (50% owned) and E! Entertainment Television (39.6% owned).

A summary of combined financial information for the other equity investments is as follows:

	2002	2001	2000
<i>Results of Operations:</i>			
Revenues	<b>\$3,111</b>	\$3,161	\$2,973
Net Income	<b>\$ 635</b>	\$ 763	\$ 701
<i>Balance Sheet:</i>			
Current assets	<b>\$1,938</b>	\$1,702	
Non-current assets	<b>1,419</b>	1,348	
	<b>\$3,357</b>	\$3,050	
Current liabilities	\$ 956	\$ 830	
Non-current liabilities	717	675	
Stockholders' equity	<b>1,684</b>	1,545	
	<b>\$3,357</b>	\$3,050	

**Investments, at cost** As of September 30, 2002 and 2001, the Company held \$14 million and \$92 million, respectively, of securities classified as available-for-sale. As of September 30, 2002 and September 30, 2001, the Company also held \$148 million and \$472 million, respectively, of non-public cost method investments.

Realized gains and losses are determined principally on an average cost basis. In 2002, 2001 and 2000, the Company recognized \$239 million, \$87 million and \$41 million, respectively, in net gains on sales of securities. Included in fiscal 2002 is a \$216 million gain on the sale of the remaining shares of Knight Ridder stock that the Company had received in connection with the disposition of certain publishing operations that had been acquired in connection with the acquisition of ABC.

In addition, in 2002 and 2001, the Company recorded non-cash charges of \$2 million and \$241 million, respectively, to reflect other-than-temporary losses in value of certain investments. In 2002, 2001 and 2000, unrealized gains and losses on available-for-sale securities were not material.

**Investment in leveraged leases** The Company's investment portfolio includes commercial aircraft leveraged lease investments made between 1992 and 1994 totaling \$289 million, which are diversified across three air carriers (United Airlines – \$114 million, Delta Airlines – \$119 million, and FedEx – \$56 million) and eleven aircraft. Risk of loss under these transactions is primarily related to the ability of the air carriers to make underlying lease payments.

We continue to monitor our investment in commercial aircraft leasing transactions given the current status of the airline industry. We have, in particular, been monitoring United Airlines which has indicated that if it does not obtain significant concessions from each of its employee unions, achieve cost savings in other operating areas of the company and obtain a loan guarantee from the Airline Transportation Stabilization Board, it will have to file for bankruptcy protection. To date, all payments on these leases have been made when due. The inability of any of the companies to make their lease payments or the termination of our leases through a bankruptcy proceeding could result in material charges related to a write-down of some or all of our investment and could accelerate income tax payments.

The Company's leveraged lease investment includes the impact of certain income tax benefits that are projected to be realized in the future under the current U.S. income tax laws. As discussed more fully in Note 8, the U.S. Congress is considering a change in the applicable income tax law.

#### NOTE 5. FILM AND TELEVISION COSTS

	2002	2001
Theatrical film costs		
Released, less amortization	\$2,384	\$2,324
Completed, not released	819	445
In-process	790	1,103
In development or pre-production	147	143
	<b>4,140</b>	4,015
Television costs		
Released, less amortization	909	730
Completed, not released	131	62
In-process	292	407
In development or pre-production	25	41
	<b>1,357</b>	1,240
Television broadcast rights	<b>1,123</b>	1,155
	<b>6,620</b>	6,410
Less current portion	661	769
Non-current portion	<b>\$5,959</b>	\$5,641

Based on management's total gross revenue estimates as of September 30, 2002, approximately 44% of completed and unamortized film and television costs (excluding amounts allocated to acquired film libraries) are expected to be amortized during fiscal 2003, and approximately 71% during the next three years. By September 30, 2006, approximately 80% of the total completed and unamortized film and television costs are expected to be amortized. As of September 30, 2002, the Company estimated that approximately \$332 million of accrued participation liabilities will be payable in fiscal year 2003.

At September 30, 2002, acquired film libraries have remaining unamortized film costs of \$387 million which are amortized straight line over a remaining period of approximately 5-14 years.

The following table provides detail of film and television cost spending and amortization.

	2002	2001	2000
Film and television cost spending	\$(2,315)	\$(2,273)	\$(2,585)
Film and television cost			
amortization	2,218	2,260	2,375
Film and television cost	<b>\$ (97)</b>	\$ (13)	\$ (210)

**NOTE 6. GOODWILL AND INTANGIBLE ASSETS**

The following table provides a reconciliation of reported net earnings (loss) for the prior-years to adjusted earnings had SFAS 142 been applied as of the beginning of fiscal 2000.

	2001		2000	
	Amount	Earnings per share	Amount	Earnings per share
Reported net earnings (loss) attributed to Disney				
Common Stock	\$ (41)	\$(0.02)	\$1,196	\$0.57
Cumulative effect of accounting changes	278	0.13	—	—
Reported earnings attributed to Disney Common Stock before the cumulative effect of accounting changes	237	0.11	1,196	0.57
Add back amortization (net of tax):				
Goodwill	604	0.29	880	0.42
Indefinite life intangible assets	50	0.02	81	0.04
Adjusted earnings attributed to Disney Common Stock before the cumulative effect of accounting changes	<u>\$891</u>	<u>\$ 0.42</u>	<u>\$2,157</u>	<u>\$1.03</u>

The changes in the carrying amount of goodwill for the year ended September 30, 2002 are as follows:

	Media Networks	Other	Total
Balance as of October 1, 2001	\$12,042	\$64	\$12,106
Goodwill acquired during the period	4,998	11	5,009
Investment impairment adjustment	(32)	—	(32)
<b>Balance as of September 30, 2002</b>	<b>\$17,008</b>	<b>\$75</b>	<b>\$17,083</b>

The Media Networks segment goodwill includes goodwill attributed to the cable equity investees. During the third quarter of fiscal 2002, the Company determined that an investment in a Latin American cable operator had experienced a permanent decline in value and recorded a goodwill impairment loss of \$32 million representing the goodwill associated with that investment. The impairment loss has been recorded in "Equity in the income of investees" in the Consolidated Statements of Income.

**NOTE 7. BORROWINGS**

The Company's borrowings at September 30, 2002 and 2001, including interest rate swaps designated as hedges, are summarized below.

	2002							
			Interest rate and cross-currency swaps <sup>(b)</sup>		Effective Swap			
	2002	2001	Stated Interest Rate <sup>(a)</sup>	Pay Float	Pay Fixed	Interest Rate <sup>(c)</sup>	Maturities	
Commercial paper								
due 2003	\$ 721	\$ 754	2.0%	\$ —	\$ 600	3.8%	2004-2005	
U.S. medium-term notes	8,042	5,681	6.1%	2,612	—	5.1%	2003-2032	
Other USD denominated debt	1,303	997	4.8%	—	—	4.8%	—	
Privately placed debt	425	500	7.0%	425	—	3.8%	2007	
European medium-term notes	1,646	1,258	3.3%	1,141	—	3.4%	2003-2007	
Preferred stock	495	102	7.4%	102	—	4.4%	2004	
Capital Cities/ABC and ABC								
Family debt	1,085	195	9.3%	97	—	8.9%	2021	
Other <sup>(d)</sup>	413	282		—	—		—	
	<u>14,130</u>	<u>9,769</u>	<u>5.6%</u>	<u>—</u>	<u>—</u>	<u>4.9%</u>	<u>—</u>	
Less current portion	<u>1,663</u>	<u>829</u>		<u>92</u>	<u>—</u>		2003	
Total long-term borrowings	<b>\$12,467</b>	<b>\$8,940</b>			<b>\$4,285</b>	<b>\$600</b>		

<sup>(a)</sup>The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating rate borrowings, interest rates are based upon the rates at September 30, 2002; these rates are not necessarily an indication of future interest rates.

<sup>(b)</sup>Amounts represent notional values of interest rate swaps.

<sup>(c)</sup>The effective interest rate reflects the impact of interest rate and cross-currency swaps on the stated rate of debt.

<sup>(d)</sup>Includes write ups due to market value adjustments for debt with qualifying hedges that are recorded as debt on the balance sheet totaling \$353 million at September 30, 2002.

**Commercial Paper** The Company currently maintains U.S. and European commercial paper programs with a combined program size of \$4.5 billion. As of September 30, 2002, the Company had established bank facilities totaling \$4.5 billion to support commercial paper borrowings, with half of the facilities scheduled to expire in February 2003 and the other half in March 2005. The Company plans to renew or extend these bank facilities prior to their scheduled expiration. Under the bank facilities, the Company has the option to borrow at LIBOR-based rates plus a spread depending on the Company's senior unsecured debt rating. As of September 30, 2002, the Company had not borrowed against the bank facilities. At September 30, 2002, the total debt outstanding from commercial paper was \$721 million, with maturities ranging from 4 to 158 days and stated interest rates ranging from 1.85% to 2.53%.

**\$7.5 Billion Shelf Registration Statement** In August 2001, the Company filed a U.S. shelf registration statement with the Securities and Exchange Commission (SEC) which allows the Company to issue from time to time, up to \$7.5 billion of securities, including debt securities, preferred stock, common stock, depositary shares, warrants and purchase contracts. Of the \$7.5 billion available at September 30, 2002, \$2.75 billion of debt had been issued under the Company's U.S. medium-term note program (described below) and \$1.303 billion of debt had been issued under other U.S. dollar denominated debt (also described below). The remaining unused available capacity to issue under the shelf is \$3.447 billion, subject to market conditions and other factors impacting our borrowing capacity.

**U.S. Medium-Term Note Program** In September 2001, the Company established a \$6.5 billion U.S. medium-term note program under the U.S. shelf registration statement described above for the issuance of various types of debt instruments, such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, global notes and dual currency or other indexed notes. In 2002, the Company issued \$2.75 billion under the current program. The remaining capacity under the program may be further reduced from time to time to the extent that the Company issues securities outside of the existing U.S. medium-term note program but under the current shelf registration statement. At September 30, 2002, the total debt outstanding under the current and prior U.S. medium-term note programs was \$8.042 billion. The maturities of current outstanding borrowings ranged from 1 to 91 years and stated interest rates ranged from 1.46% to 7.55%.

**Other U.S. Dollar Denominated Debt** From time to time, the Company may issue bonds or notes separately from the U.S. medium-term note program, under shelf registration statements in effect at the time. At September 30, 2002, the total debt outstanding from these offerings, which included global bonds and quarterly interest bonds (QUIBS), was \$1.303 billion. The maturities of these outstanding borrowings ranged from 1 to 29 years and the stated interest rates ranged from 3.9% to 7%.

**Privately Placed Debt** In 1996, the Company raised \$850 million of privately placed financing. The notes pay 7.02% interest per annum and amortize semi-annually. The outstanding principal as of September 30, 2002 was \$425 million.

**European Medium-Term Note Program** In July 2002, the Company renewed its European medium-term note program for the issuance of various types of debt instruments such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, index linked and dual currency notes. At such time, the program size was increased from \$3.0 billion to \$4.0 billion. In 2002, the Company issued \$989 million under the program. The remaining capacity to issue under the program is \$2.354 billion, subject to market conditions and other factors impacting our borrowing capacity. The remaining capacity under the program replenishes as outstanding debt under the program matures. At September 30, 2002, the total debt outstanding from the program was \$1.646 billion. The maturities of current outstanding borrowings ranged from 1 to 5 years and

stated interest rates ranged from 2.63% to 14%. The Company has outstanding borrowings in the program denominated in U.S. dollars, Hong Kong dollars, Singapore dollars, Japanese yen and South African rand.

**Preferred Stock** As a result of the Fox Family Worldwide, Inc. (now ABC Family Worldwide, Inc.) acquisition in October 2001 (the ABC Family acquisition), the Company assumed Series A Preferred Stock with a 9% coupon and quarterly dividend payments valued at approximately \$400 million with an effective cost of capital of 5.25%. The Series A Preferred Stock is callable starting August 1, 2007, and has a maturity of August 1, 2027.

In July 1999, a subsidiary of the Company issued \$102 million of Auction Market Preferred Stock (AMPS). These are perpetual, non-cumulative, non-redeemable instruments. Quarterly distributions, if declared, are at the rate of 5.427% per annum, for the first five years. AMPS will be remarketed through an auction procedure in July 2004. The Company is required to submit a valid bid for all the AMPS at that time. Based on the Company's current credit rating, the holders may require the Company to remarket the AMPS at an earlier date. The Company has not received notification from the AMPS holders to conduct an earlier auction.

The Series A preferred stock and the AMPS are classified as borrowings given their substantive similarity to a debt instrument.

**Capital Cities/ABC and ABC Family Publicly Traded Debt** As a result of the ABC Family acquisition in October 2001, the Company assumed \$475 million of 9 1/4% Senior Notes due 2007, valued at \$502 million and \$560 million of 10 1/4% Senior Discount Notes due 2007, valued at \$589 million (collectively, the "ABC Family Notes"). At September 30, 2002, the fair value of the ABC Family Notes was \$892 million, as the Company repurchased \$194 million of the notes prior to the stated maturity date. The ABC Family Notes were redeemable by ABC Family starting November 1, 2002 and semi-annually thereafter. ABC Family exercised its right to redeem the notes and, accordingly, all of the outstanding ABC Family Notes were redeemed on November 1, 2002 at a price of 104.625% for the Senior Notes and 105.125% of the principal amount for the Senior Discount Notes. The redemption did not have a material impact on the Company. As of September 30, 2002, the ABC Family Notes were classified as current.

As a result of the Capital Cities/ABC, Inc. acquisition in 1996, the Company assumed various debt previously issued by Capital Cities/ABC, Inc. Certain of these securities were subsequently exchanged for different securities. At September 30, 2002, the outstanding balance was \$193 million with maturities ranging from 7 to 19 years and stated interest rates ranging from 8.75% to 9.645%.

Borrowings, excluding commercial paper and market value adjustments, have the following scheduled maturities:

2003	\$ 1,663
2004	2,567
2005	1,636
2006	1,420
2007	2,082
Thereafter	3,688
	<hr/>
	\$13,056

The maturities in fiscal 2003 include the ABC Family Notes that were redeemed on November 1, 2002.

The Company capitalizes interest on assets constructed for its parks, resorts and other property, and on theatrical and television productions in process. In 2002, 2001 and 2000, total interest costs capitalized were \$36 million, \$94 million and \$132 million, respectively.

#### **N O T E 8. I N C O M E T A X E S**

	2002	2001	2000
<i>Income Before Income Taxes, Minority Interests and the Cumulative Effect of Accounting Changes</i>			
Domestic (including U.S. exports)			
Foreign subsidiaries	<b>\$ 1,832</b>	\$ 1,126	\$ 2,509
	<b>358</b>	157	124
	<b>\$ 2,190</b>	\$ 1,283	\$ 2,633
<i>Income Tax Provision</i>			
Current			
Federal	<b>\$ 137</b>	\$ 721	\$ 977
State	<b>55</b>	82	182
Foreign (including withholding)	<b>257</b>	198	177
	<b>449</b>	1,001	1,336
Deferred			
Federal	<b>372</b>	(8)	247
State	<b>32</b>	66	23
	<b>404</b>	58	270
	<b>\$ 853</b>	\$ 1,059	\$ 1,606
<i>Components of Deferred Tax Assets and Liabilities</i>			
Deferred tax assets			
Accrued liabilities	<b>\$(1,272)</b>	\$(1,087)	
Foreign subsidiaries	<b>(233)</b>	(156)	
Loss and credit carryforwards	<b>(206)</b>	(195)	
Total deferred tax assets	<b>(1,711)</b>	(1,438)	
Deferred tax liabilities			
Depreciable, amortizable and other property	<b>2,967</b>	2,663	
Licensing revenues	<b>26</b>	115	
Leveraged leases	<b>307</b>	316	
Investment in Euro Disney	<b>256</b>	232	
Other, net	<b>54</b>	166	
Total deferred tax liabilities	<b>3,610</b>	3,492	
Net deferred tax liability before valuation allowance	<b>1,899</b>	2,054	
Valuation allowance	<b>74</b>	53	
Net deferred tax liability	<b>\$ 1,973</b>	\$ 2,107	

	2002	2001	2000
<i>Reconciliation of Effective Income Tax Rate</i>			
Federal income tax rate			
	<b>35.0%</b>	35.0%	35.0%
Nondeductible amortization of intangible assets	—	18.1	14.8
State taxes, net of federal income tax benefit	<b>2.6</b>	7.5	5.1
Dispositions	—	1.4	7.5
Impairment of intangible assets	—	20.6	—
Foreign sales corporation and extraterritorial income	<b>(3.1)</b>	(1.9)	(1.2)
Other, including tax reserves and related interest	<b>4.4</b>	1.8	(0.2)
	<b>38.9%</b>	82.5%	61.0%

Deferred tax assets at September 30, 2002 and 2001 were reduced by a valuation allowance relating to a portion of the tax benefits attributable to certain net operating losses (NOLs) reflected on state tax returns of Infoseek and its subsidiaries for periods prior to the Infoseek acquisition on November 18, 1999 (see Note 3), where applicable state tax laws limit the utilization of such NOLs. In addition, deferred tax assets at September 30, 2002 were reduced by a valuation allowance relating to a portion of the tax benefits attributable to certain NOLs reflected on tax returns of ABC Family Worldwide, Inc. and its subsidiaries for periods prior to the ABC Family acquisition on October 24, 2001 (see Note 3). Since the valuation allowance relates to acquired deferred tax assets, the subsequent realization of these tax benefits would result in the application of the allowance amount as a reduction to goodwill.

At September 30, 2002, approximately \$354 million of NOL carryforwards were available to offset future taxable income through the year 2021. Since the acquisition of ABC Family constituted an ownership change as defined under Section 382 of the Internal Revenue Code, the utilization of ABC Family's pre-change NOLs will be subject to an annual limitation. However, such annual limitation will not impair the realization of these NOLs.

At September 30, 2002, approximately \$75 million of foreign tax credit carryforwards were available as credits against future income taxes. Foreign tax credit carryforwards will expire through the year 2005.

In 2002, 2001 and 2000, income tax benefits attributable to employee stock option transactions of \$8 million, \$48 million and \$197 million, respectively, were allocated to stockholders' equity.

During 2002 the Company derived tax benefits of \$69 million from an exclusion provided under U.S. income tax laws with respect to certain extraterritorial income ("ETI") attributable to foreign trading gross receipts. The World Trade Organization ("WTO") has ruled that this ETI exclusion represents a prohibited export subsidy under the WTO Agreement on Subsidies and Countervailing Measures. Based upon this ruling, a WTO arbitration panel has determined that

the European Union (“EU”) may impose up to \$4 billion per year in trade sanctions against the U.S., although the EU has yet to impose such sanctions. President Bush has stated that the U.S. will change its tax laws in order to comply with the WTO ruling. Various legislative proposals providing for the repeal of the ETI exclusion have also introduced broad-based international tax reforms, but the Presidential Administration and Congress have not yet agreed upon a solution to this issue. Since the impact of this matter upon the Company depends upon the actions of the EU and the specific provisions of any tax legislation ultimately enacted by Congress, it is not possible to predict the impact on future financial results. However, if the ETI exclusion is repealed and legislation that would replace the ETI exclusion benefit is not enacted, the impact on the Company’s tax provision could be significant.

As a matter of course, the Company is regularly audited by the Federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. Among current audits, the Internal Revenue Service (IRS) is in the final stages of its examination of the Company’s federal income tax returns for 1993 through 1995. In connection with this examination, the IRS has proposed assessments that challenge certain of the Company’s tax positions which, if upheld through the administrative and legal process, could have a material impact on the Company’s earnings and cash flow. The Company believes that its tax positions comply with applicable tax law and it intends to defend its positions vigorously. The Company believes it has adequately provided for any reasonably foreseeable outcome related to these matters, and it does not anticipate any material earnings impact from their ultimate resolution. During 2002, the Company negotiated the settlement of a number of proposed assessments, and it continues to pursue favorable settlement of the remaining items.

#### **NOTE 9. PENSION AND OTHER BENEFIT PROGRAMS**

The Company maintains pension and post-retirement medical benefit plans covering most of its domestic employees not covered by union or industry-wide plans. Employees hired after January 1, 1994 are not eligible for post-retirement medical benefits. With respect to its qualified defined benefit pension plans, the Company’s policy is to fund, at a minimum, the amount necessary on an actuarial basis to provide for benefits in accordance with the requirements of the Employee Retirement Income Security Act of 1974. Pension benefits are generally based on years of service and/or compensation. The following chart summarizes the balance sheet impact, as well as the benefit obligations, assets, funded status and rate assumptions associated with the pension and post-retirement medical benefit plans.

	Pension Plans		Post-Retirement Benefit Plans	
	2002	2001	2002	2001
Reconciliation of funded status of the plans and the amounts included in the Company’s Consolidated Balance Sheets:				
Projected benefit obligations				
Beginning obligations	\$ (2,131)	\$(1,825)	<b><u><span style="color: black;">\$(585)</span></u></b>	<b><u><span style="color: black;">\$(413)</span></u></b>
Service cost	(98)	(90)	(22)	(13)
Interest cost	(157)	(143)	(43)	(33)
Amendments	(14)	(10)	<b><u><span style="color: black;">18</span></u></b>	<b><u><span style="color: black;">—</span></u></b>
Actuarial losses	(76)	(146)	(67)	(139)
Benefits paid	<b><u><span style="color: black;">88</span></u></b>	<b><u><span style="color: black;">83</span></u></b>	<b><u><span style="color: black;">19</span></u></b>	<b><u><span style="color: black;">13</span></u></b>
Ending obligations	<b><u><span style="color: black;">\$(2,388)</span></u></b>	<b><u><span style="color: black;">\$(2,131)</span></u></b>	<b><u><span style="color: black;">\$(680)</span></u></b>	<b><u><span style="color: black;">\$(585)</span></u></b>
Fair value of plans’ assets				
Beginning fair value	<b><u><span style="color: black;">\$ 2,450</span></u></b>	<b><u><span style="color: black;">\$ 2,773</span></u></b>	<b><u><span style="color: black;">\$ 229</span></u></b>	<b><u><span style="color: black;">\$ 256</span></u></b>
Actual return on plans’ assets	(197)	(230)	(20)	(23)
Contributions	<b><u><span style="color: black;">6</span></u></b>	<b><u><span style="color: black;">9</span></u></b>	<b><u><span style="color: black;">9</span></u></b>	<b><u><span style="color: black;">9</span></u></b>
Benefits paid	<b><u><span style="color: black;">(88)</span></u></b>	<b><u><span style="color: black;">(83)</span></u></b>	<b><u><span style="color: black;">(19)</span></u></b>	<b><u><span style="color: black;">(13)</span></u></b>
Expenses	<b><u><span style="color: black;">(14)</span></u></b>	<b><u><span style="color: black;">(19)</span></u></b>	<b><u><span style="color: black;">—</span></u></b>	<b><u><span style="color: black;">—</span></u></b>
Ending fair value	<b><u><span style="color: black;">\$ 2,157</span></u></b>	<b><u><span style="color: black;">\$ 2,450</span></u></b>	<b><u><span style="color: black;">\$ 199</span></u></b>	<b><u><span style="color: black;">\$ 229</span></u></b>
Funded status of the plans	<b><u><span style="color: black;">\$ (231)</span></u></b>	<b><u><span style="color: black;">\$ 319</span></u></b>	<b><u><span style="color: black;">\$(481)</span></u></b>	<b><u><span style="color: black;">\$(356)</span></u></b>
Unrecognized net (gain) loss	<b><u><span style="color: black;">400</span></u></b>	<b><u><span style="color: black;">(129)</span></u></b>	<b><u><span style="color: black;">241</span></u></b>	<b><u><span style="color: black;">145</span></u></b>
Unrecognized prior service cost (benefit)	<b><u><span style="color: black;">24</span></u></b>	<b><u><span style="color: black;">11</span></u></b>	<b><u><span style="color: black;">(20)</span></u></b>	<b><u><span style="color: black;">4</span></u></b>
Net balance sheet asset (liability)	<b><u><span style="color: black;">\$ 193</span></u></b>	<b><u><span style="color: black;">\$ 201</span></u></b>	<b><u><span style="color: black;">\$(260)</span></u></b>	<b><u><span style="color: black;">\$(207)</span></u></b>
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	<b><u><span style="color: black;">\$ 317</span></u></b>	<b><u><span style="color: black;">\$ 357</span></u></b>	<b><u><span style="color: black;">\$ 27</span></u></b>	<b><u><span style="color: black;">\$ 34</span></u></b>
Accrued benefit liability	<b><u><span style="color: black;">(194)</span></u></b>	<b><u><span style="color: black;">(156)</span></u></b>	<b><u><span style="color: black;">(287)</span></u></b>	<b><u><span style="color: black;">(241)</span></u></b>
Accumulated other comprehensive income	<b><u><span style="color: black;">70</span></u></b>	<b><u><span style="color: black;">—</span></u></b>	<b><u><span style="color: black;">—</span></u></b>	<b><u><span style="color: black;">—</span></u></b>
	<b><u><span style="color: black;">\$ 193</span></u></b>	<b><u><span style="color: black;">\$ 201</span></u></b>	<b><u><span style="color: black;">\$(260)</span></u></b>	<b><u><span style="color: black;">\$(207)</span></u></b>

The component of net periodic benefit costs are as follows:

	Pension Plans			Post-Retirement Benefit Plans		
	2002	2001	2000	2002	2001	2000
Service costs	\$ 97	\$ 88	\$ 86	\$ 22	\$ 13	\$ 10
Interest costs	157	143	131	43	33	21
Expected return on plan assets	(241)	(237)	(217)	(21)	(21)	(19)
Amortization of prior year service costs	1	—	—	1	1	1
Recognized net actuarial loss	—	(18)	(3)	12	—	(7)
Net periodic benefit cost (credit)	\$ 14	\$ (24)	\$ (3)	\$ 57	\$ 26	\$ 6
Rate Assumptions:						
Discount rate	7.2%	7.5%	8.0%	7.2%	7.5%	8.0%
Rate of return on plans' assets	8.5%	9.5%	10.0%	8.5%	9.5%	10.0%
Salary increases	4.7%	5.0%	5.5%	n/a	n/a	n/a
Annual increase in cost of benefits	n/a	n/a	n/a	10.0%	10.0%	7.5%

Net periodic benefit cost for the current year is based on rate assumptions from the prior year.

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$495 million, \$471 million and \$324 million, respectively, for 2002, and \$151 million, \$119 million and \$0, respectively, for 2001.

The Company's accumulated pension benefit obligations at September 30, 2002 and 2001 were \$2.2 billion and \$1.9 billion, respectively, of which 98.2% and 97.7%, respectively, were vested. In addition, the Company contributes to various pension plans under union and industry-wide agreements. In 2002, 2001 and 2000, the costs recognized under these plans were \$41 million, \$40 million and \$38 million, respectively.

The market values of the Company's shares held by the pension plan master trust as of September 30, 2002 and 2001 were \$42 million and \$52 million, respectively.

The accumulated post-retirement benefit obligations and fair value of plan assets for post-retirement plans with accumulated post-retirement benefit obligations in excess of plan assets were \$680 million and \$199 million, respectively for 2002, and \$441 million and \$79 million, respectively for 2001.

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement medical benefit plans. A one percentage point decrease in the assumed health care cost trend rates would reduce total service and interest costs and post-retirement benefit obligations by \$14 million and \$118 million, respectively. A one percentage point increase in the assumed health care cost trend rates would increase total service and interest costs and post-retire-

ment benefit obligations by \$19 million and \$153 million, respectively. The annual increase in cost of post-retirement benefits is assumed to decrease 1.0 percentage point per year for 5 years until reaching 5.0%.

The Company has savings and investment plans that allow eligible employees to allocate up to 10% or 15% of salary through payroll deductions depending on the plan in which the employee participates. The Company matches 50% of the employee's pre-tax contributions, up to plan limits. In 2002, 2001 and 2000, the costs of these plans were \$29 million, \$32 million and \$30 million, respectively.

#### NOTE 10. STOCKHOLDERS' EQUITY

Under its share repurchase program, the Company is authorized to repurchase approximately 330 million shares as of September 30, 2002. No shares were repurchased during the current year. During fiscal 2001, the Company repurchased a total of 63.9 million shares of Disney common stock for approximately \$1.1 billion.

In December 1999, the Company established the TWDC Stock Compensation Fund II (Fund II) pursuant to the repurchase program to acquire shares of company common stock for the purpose of funding certain future stock-based compensation. Any shares acquired by Fund II that are not utilized must be disposed of by December 31, 2002.

The Company declared a fourth quarter dividend of \$0.21 per share on December 3, 2002 related to fiscal 2002. The dividend is payable on January 9, 2003 to shareholders of record on December 13, 2002. The Company paid a \$428 million dividend (\$0.21 per Disney share) during the first quarter of fiscal 2002 applicable to fiscal 2001, paid a \$438 million dividend (\$0.21 per Disney share) during the first quarter of fiscal 2001 applicable to fiscal 2000 and paid a \$434 million dividend (\$0.21 per Disney share) during the first quarter of fiscal 2000 applicable to fiscal 1999.

#### NOTE 11. STOCK INCENTIVE PLANS

Under various plans, the Company may grant stock options and other awards to key executive, management and creative personnel at exercise prices equal to or exceeding the market price at the date of grant. In general, options for common stock become exercisable over a five-year period from the grant date and expire 10 years after the date of grant. In certain cases for senior executives, options become exercisable over periods up to 10 years and expire up to 15 years after date of grant. Shares available for future option grants at September 30, 2002 totaled 90 million.

The following table summarizes information about stock option transactions, including the conversion of all shares of Disney Internet Group common stock (DIG) into shares of Disney common stock (DIS) effective March 2001 (shares in millions).

	2002		2001		2000	
	Weighted Shares	Average Price	Weighted Shares	Average Exercise Price	Weighted Shares	Average Exercise Price
<b>Outstanding at beginning of year</b>						
Awards canceled	<b>(14)</b>	<b>\$33.64</b>	(13)	36.30	(18)	29.56
Awards granted	<b>50</b>	<b>21.99</b>	43	29.71	49	32.92
Awards exercised	<b>(2)</b>	<b>18.02</b>	(9)	18.72	(28)	18.94
Awards expired	<b>(6)</b>	<b>34.72</b>	—	—	—	—
Options converted <sup>(1)</sup>	—	—	5	102.61	—	—
<b>Outstanding at September 30</b>						
	<b>216</b>	<b>\$27.48</b>	<b>188</b>	<b>\$ 29.54</b>	<b>162</b>	<b>\$27.24</b>
<b>Exercisable at September 30</b>						
	<b>88</b>	<b>\$26.89</b>	<b>66</b>	<b>\$ 25.64</b>	<b>51</b>	<b>\$21.22</b>

<sup>(1)</sup>Represents conversion of all outstanding DIG options that were converted into options to purchase DIS options on March 20, 2001 (see Note 3).

The following table summarizes information about stock options outstanding at September 30, 2002 (shares in millions).

Range of Exercise Prices	Number of Options	Outstanding		Exercisable	
		Contractual Life	Weighted Average	Years of Exercise	Weighted Average
			Remaining Years of Life		Weighted Average Price
\$10–\$ 14	6	2.3	\$ 13.84	5	\$ 13.70
\$15–\$ 19	15	3.1	18.33	12	18.33
\$20–\$ 24	81	7.3	21.89	27	21.59
\$25–\$ 29	30	6.6	27.09	15	26.97
\$30–\$ 34	63	7.7	31.54	19	32.09
\$35–\$ 39	11	6.1	37.35	6	37.55
\$40–\$ 44	8	8.1	41.16	2	40.57
\$45–\$395	2	7.4	111.09	2	115.33
	<b>216</b>			<b>88</b>	

The Company granted restricted stock units to certain executives during fiscal year 2002. Certain units vest upon the achievement of certain performance conditions. The remaining units vest 50% in fiscal year 2005 and 50% in fiscal year 2006. Units are forfeited if the grantee terminates employment prior to vesting. Compensation expense recorded in fiscal year 2002 was \$3.4 million.

The following table reflects pro forma net income (loss) and earnings (loss) per share had the Company elected to adopt the fair value approach of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (in millions, except for per share data).

	2002	2001	2000
<b>Net income (loss) attributed to Disney common stock:</b>			
As reported	<b>\$1,236</b>	\$ (41)	\$1,196
Pro forma after option expense	<b>930</b>	(325)	958
<b>Diluted earnings (loss) per share attributed to Disney common stock:</b>			
As reported	<b>0.60</b>	(0.02)	0.57
Pro forma after option expense	<b>0.45</b>	(0.15)	0.46

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

The weighted average fair values of options at their grant date during 2002, 2001 and 2000, where the exercise price equaled the market price on the grant date, were \$8.02, \$10.25 and \$12.49, respectively. The estimated fair value of each Disney option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

	2002	2001	2000
Risk-free interest rate	<b>4.8%</b>	5.0%	6.5%
Expected years until exercise	<b>6.0</b>	6.0	6.0
Expected stock volatility	<b>30%</b>	27%	26%
Dividend yield	<b>.96%</b>	.70%	.59%

#### **NOTE 12. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS**

	2002	2001
<i>Current receivables</i>		
Accounts receivable	<b>\$ 3,960</b>	\$ 3,120
Income taxes receivable	—	122
Other	<b>332</b>	282
Allowance for doubtful accounts	<b>(243)</b>	(181)
	<b>\$ 4,049</b>	\$ 3,343
<i>Other current assets</i>		
Prepaid expenses	<b>\$ 492</b>	\$ 444
Other	<b>87</b>	138
	<b>\$ 579</b>	\$ 582

	2002	2001
<i>Parks, resorts and other property, at cost</i>		
Attractions, buildings and improvements	\$ 8,984	\$ 9,024
Leasehold improvements	687	709
Equipment	6,228	6,212
Furniture and fixtures	898	777
Land improvements	<u>2,120</u>	2,124
	18,917	18,846
Accumulated depreciation	(8,133)	(7,662)
Projects in progress	1,148	911
Land	848	811
	<u>\$12,780</u>	\$12,906
<i>Intangible assets</i>		
Intellectual copyrights	\$ 295	\$ 298
Stadium facility leases	76	76
Other amortizable intangible assets	202	152
Accumulated amortization	(153)	(132)
	420	394
Amortizable intangible assets	1,375	1,361
FCC licenses	944	944
Trademark	37	37
Other intangible assets with indefinite lives	<u>\$ 2,776</u>	\$ 2,736
<i>Other non-current assets</i>		
Receivables	\$ 532	\$ 456
Other prepaid expenses	270	209
Prepaid benefit costs	344	391
Other	642	648
	<u>\$ 1,788</u>	\$ 1,704
<i>Accounts payable and other accrued liabilities</i>		
Accounts payable	\$ 3,820	\$ 3,623
Payroll and employee benefits	967	710
Income tax payable	219	—
Other	167	71
	<u>\$ 5,173</u>	\$ 4,404
<i>Other long-term liabilities</i>		
Deferred revenues	\$ 614	\$ 664
Capital lease obligations	358	343
Program licenses and rights	324	190
Participation liabilities	207	127
Accrued benefit liability	481	397
Other	1,299	1,346
	<u>\$ 3,283</u>	\$ 3,067

**N O T E 13. F I N A N C I A L I N S T R U M E N T S**

During 2002 and 2001, the Company hedged certain investment holdings using forward sale contracts. The contracts, with notional amounts totaling \$530 million in 2002 and 2001, were terminated in October 2001.

**Interest Rate Risk Management** The Company is exposed to the impact of interest rate changes. The Company's objective is to manage the impact of interest rate changes on earnings and cash flows and on the market value of its investments and borrowings. In accordance with policy, the Company maintains a minimum amount of fixed rate debt expressed as a percentage of its net debt.

Significant interest rate risk management instruments held by the Company during 2002 and 2001 included pay-floating and pay-fixed swaps. Pay-floating swaps effectively convert fixed rate medium and long-term obligations to variable rate instruments indexed to LIBOR. These swap agreements expire in one to 30 years. Pay-fixed swaps effectively convert floating rate obligations to fixed rate instruments. The pay-fixed swaps expire in one to three years. As of September 30, 2002 and 2001 respectively, the Company held \$300 million and \$500 million of pay-fixed swaps that no longer qualified as hedges. The prospective change in market values related to these swaps from the time they were ineffective as hedges, has been included in earnings.

The impact of interest rate risk management activities on income in 2002, 2001 and 2000 was not material. The amount of deferred gains from interest rate risk management transactions at September 30, 2002 and 2001 was \$41 million and \$22 million, respectively.

**Foreign Exchange Risk Management** The Company transacts business globally and is subject to risks associated with changing foreign exchange rates. The Company's objective is to reduce earnings and cash flow fluctuations associated with foreign exchange rate changes thereby enabling management to focus attention on core business issues and challenges.

The Company enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted, but not firmly committed foreign currency revenues. The Company uses option strategies and forward contracts to hedge forecasted revenues. In accordance with policy, the Company hedges a minimum percentage (not to exceed a maximum percentage) of its forecasted transactions generally for periods not to exceed five years. The Company also uses forward contracts to hedge foreign currency assets, liabilities and firm commitments. The gains and losses on these contracts offset gains or losses expected on the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the European euro, British pound, Japanese yen and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency-denominated borrowings to U.S. dollars.

Gains and losses on contracts hedging forecasted foreign currency revenues are recorded to accumulated other comprehensive income (AOCI), and reclassified to current earnings when such revenues are recognized, offsetting changes in the value of the foreign currency revenues. At September 30, 2002 and 2001, the Company had

deferred gains of \$66 million and \$91 million, respectively, and deferred losses of \$85 million and \$24 million, respectively, related to foreign currency hedge transactions.

Deferred amounts to be recognized can change with market conditions and will be substantially offset by changes in the value of the related hedged transactions. Amount expected to be reclassified to earnings over the next twelve months is a loss of \$30 million. The Company reclassified a \$27 million and \$16 million after-tax gain from AOCI to earnings during fiscal 2002 and 2001, respectively, which was offset by net losses on items being hedged.

At September 30, 2002 and 2001, changes in value related to cash flow hedges included in AOCI, were a loss of \$19 million and a gain of \$69 million, respectively. In addition, the Company reclassified deferred losses related to certain cash flow hedges from AOCI to earnings, due to the uncertainty of the timing of the original forecasted transaction. During fiscal 2002 and 2001, the Company recorded the change in fair market value related to fair value hedges and the ineffectiveness related to cash flow hedges to earnings. These amounts were not material. The impact of foreign exchange risk management activities on operating income in 2002 and in 2001 was a net gain of \$44 million and \$142 million, respectively.

**Fair Value of Financial Instruments** At September 30, 2002 and 2001, the Company's financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings and interest rate, forward and foreign exchange risk management contracts.

At September 30, 2002 and 2001, the fair values of cash and cash equivalents, receivables and accounts payable approximated carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or rates for the same or similar instruments, and the related carrying amounts are as follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	\$ 14	\$ 14	\$ 405	\$ 621
Borrowings	(\$14,130)	(\$14,735)	(\$9,769)	(\$9,991)
Risk management contracts:				
Foreign exchange				
forwards	\$ 20	\$ 20	\$ 65	\$ 65
Foreign exchange options	5	5	20	20
Interest rate swaps	363	363	240	240
Forward sale contracts	—	—	(3)	(3)
Cross-currency swaps	(28)	(28)	(20)	(20)
	<b>\$ 360</b>	<b>\$ 360</b>	<b>\$ 302</b>	<b>\$ 302</b>

**Credit Concentrations** The Company continually monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments, and does not anticipate nonperformance by the counterparties. The Company would not realize a material loss as of September 30, 2002 in the event of nonperformance by any one counterparty. The Company enters into transactions only with financial institution counterparties that have a

credit rating of A- or better. The Company's current policy regarding agreements with financial institution counterparties is generally to require collateral in the event credit ratings fall below A- or in the event aggregate exposures exceed limits as defined by contract. In addition, the Company limits the amount of investment credit exposure with any one institution. As of September 30, 2002, counterparties pledged a total of \$14.8 million.

The Company's receivables and investments do not represent a significant concentration of credit risk at September 30, 2002, due to the wide variety of customers and markets into which the Company's products are sold, their dispersion across many geographic areas, and the diversification of the Company's portfolio among instruments and issuers.

#### NOTE 14. COMMITMENTS AND CONTINGENCIES

The Company has various contractual commitments, which are primarily for the purchase of broadcast rights for various feature films, sports and other programming, aggregating approximately \$16.2 billion, including approximately \$1.1 billion for available programming as of September 30, 2002, and approximately \$11.3 billion related to sports programming rights, primarily NFL, NBA, College Football and MLB.

In 1997, the Company guaranteed certain bond issuances by the Anaheim Public Authority for a total of \$111 million. The guarantee also extends to interest that will total \$319 million over the life of the bond. The bond proceeds were used by the City of Anaheim to finance the expansion of the Anaheim Convention Center, the construction of infrastructure within the Anaheim Resort area and the construction of a public parking facility. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds. The Company has guaranteed the bonds and in the event of a debt service shortfall, will be responsible to fund such short fall. To the extent that subsequent tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any previously funded short falls. We will continue to monitor this situation in the future. To date, the tax revenues have exceeded the debt service payments.

The Company and the Government of the Hong Kong Special Administrative Region are developing the Hong Kong Disneyland theme park. In connection with that development, the Company has a maximum equity contribution obligation of \$291 million at September 30, 2002 based on current exchange rates.

The Company has various real estate operating leases, including retail outlets and distribution centers for consumer products and office space for general and administrative purposes. Rental expense for the operating leases during 2002, 2001 and 2000, including, common-area maintenance and contingent rentals, was \$413 million, \$420 million and \$482 million, respectively.

Contractual commitments, primarily broadcast programming rights and future minimum lease payments under the non-cancelable operating leases totaled \$16.2 billion at September 30, 2002, payable as follows:

	Broadcast Programming	Operating Leases	Total
2003	\$4,198	\$223	\$ 4,421
2004	3,107	200	3,307
2005	2,882	173	3,055
2006	2,296	156	2,452
2007	1,128	141	1,269
Thereafter	980	715	<u>1,695</u>
			\$16,199

The Company has certain non-cancelable capital leases primarily for land and broadcast equipment. Future payments under these leases as of September 30, 2002 are as follows:

2003	\$ 39
2004	39
2005	39
2006	41
2007	50
Thereafter	<u>779</u>
Total minimum obligations	987
Less amount representing interest	<u>617</u>
Present value of net minimum obligations	370
Less current portion	<u>12</u>
Long-term portion	<u>\$ 358</u>

*Stephen Slesinger, Inc. v. The Walt Disney Company* In this lawsuit, filed on February 27, 1991 and pending in the Los Angeles County Superior Court, the plaintiff claims that a Company subsidiary defrauded it and breached a 1983 licensing agreement with respect to certain Winnie the Pooh properties, by failing to account for and pay royalties on revenues earned from the sale of Winnie the Pooh movies on videocassette and from the exploitation of Winnie the Pooh merchandising rights. The plaintiff seeks damages for the licensee's alleged breaches as well as confirmation of the plaintiff's interpretation of the licensing agreement with respect to future activities. The plaintiff also seeks the right to terminate the agreement on the basis of the alleged breaches. The Company disputes that the plaintiff is entitled to any damages or other relief of any kind, including termination of the licensing agreement. The claim is currently scheduled for trial in March 2003. If each of the plaintiff's claims were to be confirmed in a final judgment, damages as argued by the plaintiff could total as much as several hundred million dollars and adversely impact the value to the Company of any future exploitation of the licensed rights. However, given the number of outstanding issues and the uncertainty of their ultimate disposition, management is unable to predict the magnitude of any potential determination of the plaintiff's claims.

*Milne and Disney Enterprises, Inc. v. Stephen Slesinger, Inc.* On November 5, 2002, Clare Milne, the granddaughter of A.A. Milne, author of the Winnie the Pooh books, and the Company's subsidiary Disney Enterprises, Inc. filed a complaint against Stephen Slesinger, Inc. ("SSI") in the United States District Court for the Central District of California. On November 4, 2002, Ms. Milne served notices to SSI and the Company's subsidiary terminating A.A. Milne's prior grant of rights to Winnie the Pooh, effective November 5, 2004, and granted all of those rights to the Company's subsidiary. In their lawsuit, Ms. Milne and the Company's subsidiary seek a declaratory judgment, under United States copyright law, that Ms. Milne's termination notices were valid; that SSI's rights to Winnie the Pooh in the United States will terminate effective November 5, 2004; that upon termination of SSI's rights in the United States, the 1983 licensing agreement that is the subject of the Stephen Slesinger, Inc. v. The Walt Disney Company lawsuit will terminate by operation of law; and that, as of November 5, 2004, SSI will be entitled to no further royalties for uses of Winnie the Pooh.

*Kohn v. The Walt Disney Company et al.* On August 15, 2002, Aaron Kohn filed a class action lawsuit against the Company, Chief Executive Officer Michael Eisner and Chief Financial Officer Thomas Staggs in the United States District Court for the Central District of California on behalf of a putative class consisting of purchasers of the Company's common stock between August 15, 1997 and May 15, 2002. Subsequently, at least nine substantially identical lawsuits were also filed in the same court, each alleging that the defendants violated federal securities laws by not disclosing the pendency and potential implications of the Stephen Slesinger, Inc. lawsuit described above prior to the Company's filing of its quarterly report on Form 10-Q in May 2002. The plaintiffs claim that this alleged nondisclosure constituted a fraud on the market that artificially inflated the Company's stock price, and contend that a decline in the stock price resulted from the May 2002 disclosure. The plaintiffs seek compensatory damages and/or rescission for themselves and all members of their defined class. Several of the plaintiffs have filed motions asking the court to appoint lead plaintiffs and counsel, and to consolidate the related actions into a single case.

Management believes that it is not currently possible to estimate the impact, if any, that the ultimate resolution of these legal matters will have on the Company's results of operations, financial position or cash flows.

The Company, together with, in some instances, certain of its directors and officers, is a defendant or co-defendant in various other legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not expect a material impact to its results of operations, financial position or cash flows by reason of these actions.

**NOTE 15. RESTRUCTURING AND  
IMPAIRMENT CHARGES**

The Company recorded restructuring and impairment charges for the years ended September 30, 2001 and 2000 summarized as follows:

	2001	2000
GO.com intangible assets impairment	\$ 820	\$—
GO.com severance, fixed asset write-offs and other	58	—
Investment impairments	254	61
Workforce reduction and other	111	—
Chicago DisneyQuest closure	94	—
Asset impairment	63	31
Disney Store closures	54	—
Total restructuring and impairment charges	<u>\$1,454</u>	<u>\$92</u>

In 2001, the Company recorded restructuring and impairment charges totaling \$1.45 billion. The GO.com charge was for the closure of the GO.com portal business and includes a non-cash write-off of intangible assets totaling \$820 million (see Note 3). The investment impairment charge was for other-than-temporary declines in the fair value of certain Internet investments. The workforce reduction charges are primarily for severance costs and are discussed more fully below. The DisneyQuest and Disney Store closure charges were for the closure of the Chicago facility and approximately 100 Disney Stores and includes the write-down of fixed assets and leasehold improvements, leasehold termination costs, severance and other related closure costs. The asset impairment charge was for certain long-lived assets, primarily at the Disney Store and Disney Catalog. These assets were evaluated for impairment under a held for use model due to declining cash flows. Fair value was generally determined based on discounted cash flows.

During the third quarter of fiscal 2001, the Company initiated a plan to eliminate 4,000 full-time jobs through a combination of voluntary and involuntary reductions. The reduction affected employees in all business units and geographic regions. The \$111 million of costs associated with the workforce reduction consist primarily of severance costs and write-offs of idled facilities. As of September 30, 2002, the Company had substantially completed its workforce reduction.

In 2000, impairment charges amounted to \$92 million, primarily related to write-downs of certain Internet investments and an asset impairment write-down at toystmart.com in connection with its closure.

**NOTE 16. SUBSEQUENT EVENTS**

On November 27, 2002, the Company released its new animated film, *Treasure Planet*. The film's opening week box office performance was significantly less than expectations, requiring a downward revision of its projected revenues and a corresponding \$74 million writedown of capitalized film production costs. In accordance with film accounting rules, this reduction of capitalized film production costs was recorded as of September 30, 2002. As a result, the Company's fiscal 2002 earnings differ from the amounts initially reported in its November 7, 2002 earnings release to reflect this change in estimate.

**QUARTERLY FINANCIAL SUMMARY**

(unaudited, in millions, except per share data)	December 31	March 31	June 30	September 30
<b>2002</b>				
Revenues	<b>\$7,016</b>	<b>\$5,856</b>	<b>\$5,795</b>	<b>\$6,662</b>
Segment operating income	<b>753</b>	<b>702</b>	<b>828</b>	<b>539</b>
Net income	<b>438</b>	<b>259</b>	<b>364</b>	<b>175</b>
Earnings per share:				
Diluted	<b>\$ 0.21</b>	<b>\$ 0.13</b>	<b>\$ 0.18</b>	<b>\$ 0.09</b>
Basic	<b>0.21</b>	<b>0.13</b>	<b>0.18</b>	<b>0.09</b>
<b>2001<sup>(1)(2)</sup></b>				
Revenues	\$7,403	\$6,023	\$5,960	\$5,786
Segment operating income	1,231	1,025	1,122	627
Net income (loss) before the cumulative effect of accounting changes:	242	(567)	392	53
Earnings (loss) per share attributed to:				
Disney:				
Diluted	\$ 0.16	\$ (0.26)	\$ 0.19	\$ 0.03
Basic	0.16	(0.26)	0.19	0.03
Internet Group (basic and diluted)	(2.29)	(0.45)	n/a	n/a

<sup>(1)</sup>Net income does not reflect one-time after-tax charges for the adoption of SOP00-2 (Film Accounting) totaling \$228 million (\$0.11 per share) and SFAS 133 (Derivative Accounting) totaling \$50 million (\$0.02 per share), respectively, in the first quarter of 2001. See Note 2 to the Consolidated Financial Statements.

<sup>(2)</sup>Reflects restructuring and impairment charges of \$194 million, \$996 million, \$138 million and \$126 million in the first, second, third and fourth quarter of 2001, respectively. The earnings per Disney share impact of the charges were \$0.00, \$0.44, \$0.04 and \$0.04, respectively. See Note 15 to the Consolidated Financial Statements.

**SELECTED FINANCIAL DATA**

(In millions, except per share data)	2002	2001	2000	1999	1998
<i>Statements of income</i>					
Revenues	<b>\$25,329</b>	\$25,172	\$25,325	\$23,373	\$22,919
Income before the cumulative effect of accounting changes	<b>1,236</b>	120	920	1,300	1,850
Per share—					
Earnings (loss) per Disney share					
Diluted	<b>\$ 0.60</b>	\$ (0.02)	\$ 0.57	\$ 0.62	\$ 0.89
Basic	<b>0.61</b>	(0.02)	0.58	0.63	0.91
Dividends	<b>0.21</b>	0.21	0.21	0.21	0.20
<i>Balance sheets</i>					
Total assets	<b>\$50,045</b>	\$43,810	\$45,027	\$43,679	\$41,378
Borrowings	<b>14,130</b>	9,769	9,461	11,693	11,685
Stockholders' equity	<b>23,445</b>	22,672	24,100	20,975	19,388
<i>Statements of cash flows</i>					
Cash provided by operations	<b>\$ 2,286</b>	\$ 3,048	\$ 3,755	\$ 2,568	\$ 1,780
Investing activities	<b>(3,176)</b>	(2,015)	(1,091)	(2,290)	(2,330)
Financing activities	<b>1,511</b>	(1,257)	(2,236)	9	360

**M A N A G E M E N T ' S R E S P O N S I B I L I T Y F O R  
F I N A N C I A L S T A T E M E N T S**

Management is responsible for the preparation of the company's consolidated financial statements and related information appearing in this report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the company's financial position and results of operations in conformity with generally accepted accounting principles. Management also has included in the company's financial statements amounts that are based on estimates and judgements which it believes are reasonable under the circumstances.

The independent accountants audit the company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the company has an Audit Committee composed of non-management Directors. The Committee meets periodically with financial management, the internal auditors and the independent accountants to review accounting, control, auditing and financial reporting matters.

**R E P O R T O F I N D E P E N D E N T A C C O U N T A N T S**

To the Board of Directors and Stockholders of  
The Walt Disney Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity, and cash flows present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries (the Company) at September 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Accordingly, the Company ceased amortizing goodwill and indefinite lived intangible assets as of October 1, 2001.

PRICEWATERHOUSECOOPERS LLP

Los Angeles, California

November 15, 2002, except as to Note 16 which is dated  
December 3, 2002

**S U P P L E M E N T A L I N F O R M A T I O N**

**S t o c k E x c h a n g e s**

Disney common stock is listed for trading on the New York and Pacific stock exchanges under the ticker symbol DIS. Certain debt securities of the company are listed on the Luxembourg stock exchange.

**R e g i s t r a r a n d S t o c k T r a n s f e r A g e n t**

The Walt Disney Company  
Shareholder Services  
611 N. Brand Boulevard, Suite 6100  
Glendale, California 91203  
(818) 553-7200

**O t h e r I n f o r m a t i o n**

A copy of the company's annual report filed with the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request to the address listed on the left.

Please visit The Walt Disney Company Investor Relations site at [www.disney.com/investors](http://www.disney.com/investors). On this site you can order financial documents online, send e-mail inquiries, get instructions on how to transfer shares and review additional information about the company.

**I n d e p e n d e n t A c c o u n t a n t s**

PricewaterhouseCoopers LLP, Los Angeles

**Board of Directors**

<i>Reveta F. Bowers</i> Head of School Center for Early Education	<i>Monica C. Lozano</i> <sup>1,4</sup> President and Chief Operating Officer La Opinion	<i>Andrea L. Van de Kamp</i> <sup>1</sup> Chairman, Sotheby's West Coast
<i>John E. Bryson</i> <sup>2,4</sup> Chairman, President and Chief Executive Officer Edison International	<i>Robert W. Matschullat</i> <sup>1</sup> Former Vice Chairman and Chief Financial Officer The Seagram Company Ltd.	<i>Raymond L. Watson</i> <sup>1,3</sup> Vice Chairman The Irvine Company
<i>Roy E. Disney</i> <sup>3</sup> Vice Chairman The Walt Disney Company	<i>George J. Mitchell</i> <sup>5</sup> Partner Piper Rudnick LLP	<i>Gary L. Wilson</i> <sup>4</sup> Chairman Northwest Airlines Corporation
<i>Michael D. Eisner</i> <sup>3</sup> Chairman of the Board and Chief Executive Officer The Walt Disney Company	<i>Thomas S. Murphy</i> <sup>3</sup> Former Chairman Capital Cities/ABC, Inc.	
<i>Judith L. Estrin</i> <sup>2,4</sup> President and Chief Executive Officer Packet Design, LLC	<i>Leo J. O'Donovan, S.J.</i> <sup>1,2</sup> President Emeritus Georgetown University	
<i>Stanley P. Gold</i> President and Chief Executive Officer Shamrock Holdings, Inc.	<i>Sidney Poitier</i> <sup>2</sup> Chief Executive Officer Verdon-Cedric Productions, Ltd.	<sup>1</sup> Member of Audit Committee <sup>2</sup> Member of Compensation Committee <sup>3</sup> Member of Executive Committee <sup>4</sup> Member of Governance and Nominating Committee <sup>5</sup> Presiding Director
<i>Robert A. Iger</i> President and Chief Operating Officer The Walt Disney Company	<i>Robert A.M. Stern</i> Senior Partner Robert A.M. Stern Architects	

**Corporate Executive Officers**

<i>Michael D. Eisner</i> Chairman of the Board and Chief Executive Officer	<i>Peter E. Murphy</i> Senior Executive Vice President and Chief Strategic Officer
<i>Roy E. Disney</i> Vice Chairman of the Board	<i>Thomas O. Staggs</i> Senior Executive Vice President and Chief Financial Officer
<i>Robert A. Iger</i> President and Chief Operating Officer	<i>Louis M. Meisinger</i> Executive Vice President and General Counsel

**Principal Businesses**

<i>ABC Broadcast Group</i>	<i>The Walt Disney Studios</i>	<i>Walt Disney Parks and Resorts</i>
<i>Alex Wallau</i> President, ABC Television Network	<i>Richard W. Cook</i> Chairman, Walt Disney Motion Pictures Group	<i>James A. Rasulo</i> President
<i>Anne M. Sweeney</i> President, ABC Cable Networks Group and President, Disney Channel Worldwide	<i>Nina R. Jacobson</i> President, Buena Vista Motion Pictures Group	<i>Martin A. Sklar</i> Vice Chairman and Principal Creative Executive, Walt Disney Imagineering
<i>Barry M. Blumberg</i> President, Walt Disney Television Animation	<i>Thomas C. Schumacher</i> President, Buena Vista Theatrical Productions	<i>Allen R. Weiss</i> President, Walt Disney World Co.
<i>George Bodenheimer</i> President, ESPN, Inc.	<i>David J. Stainton</i> President, Walt Disney Feature Animation	<i>Cynthia T. Harris</i> President, Disneyland Resort
<i>Walter C. Liss, Jr.</i> President, ABC Owned Television Stations	<i>Disney Consumer Products</i>	<i>Walt Disney Internet Group</i>
<i>John Hare</i> President, ABC Radio Division	<i>Andrew P. Mooney</i> President Worldwide	<i>Stephen H. Wadsworth</i> President
	<i>Peter D. Whitford</i> President Worldwide, The Disney Store, Inc.	<i>Walt Disney International</i>
		<i>Michael O. Johnson</i> President